

**TOWN OF HARWICH, MASSACHUSETTS  
BASIC FINANCIAL STATEMENTS AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
WITH INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED JUNE 30, 2013**

**TOWN OF HARWICH, MASSACHUSETTS  
BASIC FINANCIAL STATEMENTS  
AND MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

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**Lynch, Malloy, Marini, LLP**

*Certified Public Accountants & Advisors*

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**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Board of Selectmen  
Town of Harwich, Massachusetts

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Harwich, Massachusetts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Harwich, Massachusetts, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii - x, and the budgetary comparison information, schedule of funding progress for the Town's retiree benefit plan - other post employment benefits, on pages 37 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the Town of Harwich, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Harwich, Massachusetts' internal control over financial reporting and compliance.

*Lynch Malloy, Marini, LLP*

Norwell, Massachusetts  
November 12, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## TOWN OF HARWICH, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2013

As management of the Town of Harwich (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013.

#### **Financial Highlights:**

- The Town reported total net position for all activities of the Town of approximately \$67.6 million at the close of the most recent fiscal year. Of this amount, approximately \$63.9 million was classified as net investment in capital assets, \$6.1 million as restricted. Total unrestricted net position was in a deficit of \$2.4 million due in large part to the Town's other post-employment benefit obligation of \$4.1 million.
- The total cost of all Town services for fiscal 2013 was \$63.1 million.
- As of the end of the current fiscal year, unassigned fund balance for the general fund was \$2.4 million, or 4.4% of general fund expenditures.

#### **Overview of the Financial Statements:**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to financial statements and 4) required supplementary information.

**Government-Wide Financial Statements:** The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net position* presents information on all of the Town's assets plus deferred outflow of resources, less liabilities less deferred inflows of resources resulting in the aggregate net position of the Town. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The reader should consider other non-financial factors, such as the condition of the Town's infrastructure and changes to the property tax base, in order to assess the overall health of the Town.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Town.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, education, public works, health and human services, and culture and recreation.



## TOWN OF HARWICH, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2013

**Fund financial statements:** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds:** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be major fund. The Town's Community Preservation fund and Allen Harbor dredging capital project fund have been presented as major funds. The remaining funds are combined into aggregate funds in this presentation. Individual fund data for each of these non-major governmental funds is available from the Finance Director/Town Accountant's office.

The basic governmental fund financial statements can be found in the accompanying pages of this report.

**Proprietary Funds:** *Proprietary funds* focus on the determination of operating income, changes in net position and cash flows. These funds measure economic resources using the full accrual basis of accounting. The Town maintains one type of proprietary fund – an enterprise fund.

Enterprise funds are used to report activities that the government operates more like a business. These activities become the government's business-type activities in the government-wide financial statements.

The basic proprietary fund financial statements can be found in the accompanying pages of this report.

**Fiduciary funds:** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's programs.

# TOWN OF HARWICH, MASSACHUSETTS

## Management's Discussion and Analysis

June 30, 2013

The basic fiduciary fund financial statements can be found in the accompanying pages of this report.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Town implemented certain new GASB pronouncements during the current year which changed certain reporting classifications from previous years. These notes provide additional information related to these changes which are essential in understanding the current financial statements and comparisons with previous years. The notes to the financial statements follow the basic financial statements described above.

**Required supplementary information:** The supplementary information presented as required by governmental accounting standards, includes certain budgetary comparison information as well as information related to the Town's retiree benefits plan for health care (OPEB).

### Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Harwich, net position was approximately \$51.9 million and \$15.7 million for the governmental and business-type activities, respectively at the close of the most recent fiscal year as demonstrated in the following table. Certain prior year amounts have been restated to correspond with current presentations. Current GASB pronouncements have replaced the term "net assets" with the term "net position".

|                                                      | FY 2013                    | (restated)<br>FY 2012      | FY 2013                     | FY 2012                     |
|------------------------------------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|
|                                                      | Governmental<br>Activities | Governmental<br>Activities | Business-type<br>Activities | Business-type<br>Activities |
| Current assets                                       | \$ 22,308,377              | \$ 24,451,071              | \$ 4,431,681                | \$ 4,091,220                |
| Capital assets                                       | <u>71,711,923</u>          | <u>75,174,335</u>          | <u>19,463,803</u>           | <u>20,348,465</u>           |
| Total assets                                         | 94,020,300                 | 99,625,406                 | 23,895,484                  | 24,439,685                  |
| Deferred outflows of resources                       | <u>234,200</u>             | <u>-</u>                   | <u>201,235</u>              | <u>-</u>                    |
| Total assets and deferred outflows                   | <u>\$ 94,254,500</u>       | <u>\$ 99,625,406</u>       | <u>\$ 24,096,719</u>        | <u>\$ 24,439,685</u>        |
| Current liabilities                                  | 7,600,563                  | 5,882,049                  | 700,219                     | 852,640                     |
| Long-term liabilities                                | <u>32,627,222</u>          | <u>34,374,015</u>          | <u>7,489,500</u>            | <u>7,957,627</u>            |
| Total liabilities                                    | 40,227,785                 | 40,256,064                 | 8,189,719                   | 8,810,267                   |
| Deferred inflows of resources                        | 2,134,024                  | 1,651,181                  | 232,275                     | -                           |
| Net position:                                        |                            |                            |                             |                             |
| Net investment in capital assets                     | 52,374,860                 | 52,699,878                 | 11,558,803                  | 12,098,465                  |
| Restricted                                           | 6,087,680                  | 8,131,884                  | -                           | -                           |
| Unrestricted                                         | <u>(6,569,849)</u>         | <u>(3,113,601)</u>         | <u>4,115,922</u>            | <u>3,530,953</u>            |
| Total net position                                   | <u>51,892,691</u>          | <u>57,718,161</u>          | <u>15,674,725</u>           | <u>15,629,418</u>           |
| Total liabilities, deferred inflows and net position | <u>\$ 94,254,500</u>       | <u>\$ 99,625,406</u>       | <u>\$ 24,096,719</u>        | <u>\$ 24,439,685</u>        |

Included within the governmental activities' current assets at June 30, 2013 were \$12.5 million in cash and investments, \$3.1 million in school construction reimbursement grants receivable in future years, and \$1.9 million for Commonwealth highway awards receivable.



## TOWN OF HARWICH, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2013

Deferred outflows of resources for the Town's governmental and business-type activities were approximately \$234,000 and \$201,000 respectively. These amounts represented deferred amounts on the issuance of refunding bonds during the year which are required to be amortized over future periods.

Governmental activities long-term liabilities include \$16.9 million in general obligation bonds, other post employment benefits liability of \$14.4 million, estimated compensated absences of \$1.0 million and estimated future landfill post-closure monitoring costs of \$333,000. The balance of bonds of \$2.8 million is classified as current because it is due within the next fiscal year. Business-type activities long term liabilities include water bonds payable of \$7.4 million, \$60,000 of compensated absences. The remaining balance of these liabilities of \$475,000 has been classified as current because it is due within the next fiscal year.

Deferred inflows of resources for the Town's governmental activities and business-type activities were \$2.1 million and \$232,000 respectively. The amounts in the governmental activities consisted of \$1.8 million in state highway awards to be received in future periods and \$336,000 of bond premiums associated with the issuance of refunding bonds, required to be amortized over future periods. The business-type activities' amount of \$232,000 represented unamortized bond premiums associated with the bond refunding performed during the year.

The largest portion of the Town's combined net position reflects its \$63.9 million investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's combined net position of \$6.1 million represents resources that are subject to restrictions placed on how they may be used. The remaining balance of combined net position represents amounts which may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the Town reported an unrestricted net position balance of \$4.1 million in the business-type activities (water fund). Unrestricted net position for the Town's governmental activities reported a deficit of \$6.6 million, primarily due to the reporting of the \$14.4 million long term liability associated with other post employment benefits (OPEB).

The Town's governmental activities' net position decreased by approximately \$5.8 million and business-type activities' net position increased by approximately \$45,000 during fiscal 2013. A summary of revenue, functional expenditures, transfers, special and extraordinary items is presented below. Expenditures associated with community preservation projects have been classified into functional categories in the current year. In the previous year these expenditures were classified under the general government classification.

# TOWN OF HARWICH, MASSACHUSETTS

## Management's Discussion and Analysis

June 30, 2013

|                                                           | FY 2013<br>Governmental<br>Activities | FY 2012<br>Governmental<br>Activities | FY 2013<br>Business-type<br>Activities | FY 2012<br>Business-type<br>Activities |
|-----------------------------------------------------------|---------------------------------------|---------------------------------------|----------------------------------------|----------------------------------------|
| Revenues:                                                 |                                       |                                       |                                        |                                        |
| Charges for services                                      | \$ 6,698,081                          | \$ 7,999,309                          | \$ 3,894,809                           | \$ 3,535,581                           |
| Operating grants and contributions                        | 5,100,667                             | 8,904,353                             | -                                      | -                                      |
| Capital grants and contributions                          | 667,249                               | 663,258                               | -                                      | -                                      |
| General revenues:                                         |                                       |                                       |                                        |                                        |
| Property taxes                                            | 39,164,346                            | 38,949,567                            | -                                      | -                                      |
| Excise taxes                                              | 2,609,251                             | 2,358,606                             | -                                      | -                                      |
| Penalties and interest                                    | 285,346                               | 219,427                               | -                                      | -                                      |
| Grants and contributions not restricted and miscellaneous | 366,461                               | 364,336                               | -                                      | -                                      |
| Investment income                                         | <u>52,315</u>                         | <u>29,091</u>                         | <u>1,161</u>                           | <u>776</u>                             |
| Total revenues, transfers and special items               | 54,943,716                            | 59,411,023                            | 3,895,970                              | 5,536,357                              |
| Expenses:                                                 |                                       |                                       |                                        |                                        |
| General government                                        | 2,250,062                             | 3,597,675                             | -                                      | -                                      |
| Public safety                                             | 7,699,707                             | 8,421,436                             | -                                      | -                                      |
| Education                                                 | 21,789,074                            | 21,699,049                            | -                                      | -                                      |
| Public works                                              | 6,390,503                             | 6,746,723                             | 3,854,057                              | 3,663,971                              |
| Human services                                            | 1,769,442                             | 1,429,489                             | -                                      | -                                      |
| Culture and recreation                                    | 6,062,384                             | 3,768,309                             | -                                      | -                                      |
| Interest and other costs                                  | 746,360                               | 874,085                               | -                                      | -                                      |
| Employee benefits and other insurance                     | 11,874,605                            | 15,700,717                            | -                                      | -                                      |
| State and county charges                                  | <u>626,146</u>                        | <u>579,642</u>                        | <u>-</u>                               | <u>-</u>                               |
| Total expenses                                            | 59,208,283                            | 62,817,125                            | 3,854,057                              | 3,663,971                              |
| Special items, transfers and extraordinary items:         |                                       |                                       |                                        |                                        |
| Special item- loss on disposal of capital assets          |                                       | (76,924)                              |                                        |                                        |
| Transfers                                                 | (3,394)                               |                                       | 3,394                                  |                                        |
| Transfer to Monomoy Regional School District              | <u>(1,557,509)</u>                    | <u>-</u>                              | <u>-</u>                               | <u>-</u>                               |
| Change in net position                                    | <u>\$ (5,825,470)</u>                 | <u>\$ (3,406,102)</u>                 | <u>\$ 45,307</u>                       | <u>\$ (127,614)</u>                    |

Key elements of this increase are as follows:

### Revenues:

- ♦ Property taxes represent 71.3% of the Town's governmental activities' revenue, special items and transfers. Property tax growth represents a combination of an annual increase, allowed in the levy under Proposition 2 ½, and new growth, as well as debt and capital exclusions authorized by the Town voters.
- ♦ Charges for services make up the second largest revenue segment of governmental activities representing 12.2% of the Town's governmental activity revenue. The majority of this revenue includes retirement contributions paid on the Town's behalf by the Commonwealth of Massachusetts of \$3.4 million.
- ♦ Operating grants and contributions represent approximately 9.3% of the Town's governmental activity revenue. The majority of this revenue includes teacher retirement contributions paid on the Town's behalf by the Commonwealth of Massachusetts of \$3.4 million and certain other grants and contributions for various activities.

## TOWN OF HARWICH, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2013

#### Expenses:

- ♦ Education related expenditures accounted for 36.8% of the Town's governmental activities expenditures for fiscal year 2013. These costs related primarily to the Town's assessment from the Monomoy Regional School District (See Note 15).
- ♦ Employee benefits and other insurance accounted for 20.1% of the governmental activities expenditures. During fiscal year 2013, there were savings in health insurance premiums from the cost sharing group. School department personnel and associated costs for active employees are included within the Monomoy Regional School District's budget. Additionally, the current year's annual required contribution toward the OPEB obligation decreased in part to active school department personnel being participants of the Monomoy Regional School District.
- ♦ Public work and culture and recreation expenditures increased primarily due to an increase in highway and other maintenance projects as well as approximately \$2 million related to costs associated with dredging and other harbor related projects.

#### **Financial Analysis of the Government's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. Fund balance for governmental funds is reported in a classification hierarchy which is based upon the extent to which the government is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. These classifications are non-spendable, restricted, committed, assigned and unassigned fund balance.

In particular, *unassigned fund balance* represents the residual fund balance which has not been restricted, committed, or assigned to a purpose within that fund. The general fund is the only fund which should report a positive unassigned fund balance amount. Any negative unassigned fund balance represents expenditures incurred for specific purposes which exceeded the amounts restricted, committed, or assigned for that purpose.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$8.4 million, a decrease of \$3.6 million from the prior year, primarily due to \$2.6 million of expenditures relating to harbor dredging for which permanent financing has not yet been performed and \$1.6 million transfer of funds to the Monomoy Regional School District. The governmental funds' combined ending fund balances were reported in the following classifications: nonspendable balance of \$150,000, restricted fund balance of \$5.3 million, committed fund balance of \$2.9 million; assigned fund balance of \$352,000 and unassigned fund balance in a deficit of \$(336,000).

The general fund is the chief operating fund. At the end of the current fiscal year, the general fund reported aggregate fund balance of \$5.6 million, an increase of \$701,000 from the previous year. Committed fund balance of \$2.9 million and assigned fund balance of \$352,000 represent 51.4% and 6.3% of total general fund balance respectively. Unassigned fund balance of \$2.4 million represents 42.0% of total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total

## TOWN OF HARWICH, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2013

fund expenditures and revenues. General fund unassigned fund balance represents approximately 4.4% and 4.5%, respectively of total general fund expenditures and revenues, while total general fund balance represents 10.5% and 10.7%, respectively, of the same amounts.

#### General Fund Budgetary Highlights

The Town adopts an annual expenditure budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget. The difference between the original expenditure budget of \$52.0 million and the amended final budget of \$51.2 million. The net change is due to additional appropriations at a special town meeting of \$845,000 and \$1.5 million of continuing appropriations (warrant articles) and encumbrances being carried into future period and reducing the original budget.

#### Capital Asset and Debt Administration

The Town annually prepares a capital budget for the upcoming fiscal year and a seven-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

**Capital assets** - The Town's investment in capital assets for governmental activities as of June 30, 2013 is \$71.7 million, which was net of accumulated depreciation of \$99.2 million. The Town's investment in capital assets for business-type activities (water fund) as of June 30, 2013 is \$19.5 million, which is net of accumulated depreciation of \$25.1 million. The investment in capital assets includes land; buildings; improvements; machinery and equipment.

The table below represents a summary of the Town's capital assets, net of accumulated depreciation by category (in thousands):

| Capital assets                     | <u>Governmental Activities</u> |                  | <u>Business-type Activities</u> |                  |
|------------------------------------|--------------------------------|------------------|---------------------------------|------------------|
|                                    | <u>2013</u>                    | <u>2012</u>      | <u>2013</u>                     | <u>2012</u>      |
| Land                               | \$ 21,089                      | \$ 21,089        | \$ 1,506                        | \$ 1,506         |
| Construction in Progress           | 641                            | 590              |                                 |                  |
| Buildings and related improvements | 26,840                         | 28,413           | 4,397                           | 4,448            |
| Improvements other than buildings  | 1,842                          | 2,067            | -                               | -                |
| Equipment, machinery, vehicles     | 2,400                          | 2,787            | 1,459                           | 1,599            |
| Infrastructure                     | <u>18,899</u>                  | <u>20,228</u>    | <u>12,101</u>                   | <u>12,795</u>    |
|                                    | <u>\$ 71,711</u>               | <u>\$ 75,174</u> | <u>\$ 19,463</u>                | <u>\$ 20,348</u> |

Current year governmental activity additions related primarily to construction in progress related to road improvement projects.

**Long-term debt** - At the end of the current fiscal year, the Town reported bonded debt outstanding associated with its governmental activities of \$19.7 million. This is compared to \$23.0 million in the prior year. The Town reported bonded debt associated with its business-type activities (water fund) of \$7.9 million, compared to \$8.3 million the prior year. During the year the Town issued \$5.5 million of refunding bonds of which \$3.6 million and \$1.9 million related to the Town's governmental and business-type activities respectively. The Town had a net present value savings on the refunded debt at the time of the refunding of \$653,263. All of the Town's governmental and business-type activities' debt is a general obligation of the Town.

**TOWN OF HARWICH, MASSACHUSETTS**  
Management's Discussion and Analysis  
June 30, 2013

The Town maintains a AA+ bond rating from Standard & Poor's Investor's Service.

**Economic Factors and Next Year's Budgets and Rates**

- ◆ The Town has increased its property tax levy by 3.0% which includes new growth, debt and capital exclusions. The Town's property tax levy is anticipated to be approved by the Department of Revenue in December 2013.
- ◆ The Town's fiscal year 2014 general government operating budget was approximately \$50.3 million, this includes the \$20.3 million assessment to the Monomoy School District. The Town's fiscal year 2013 general government operating was \$49.5 million.
- ◆ In May 2013, the Town authorized approximately \$970,000 for the purpose of capital assets. Of this amount, \$527,000 was excluded from the limitations of Proposition 2 ½. Additionally, in May 2013, the Town voted infrastructure improvements of \$4,500,000 with \$3,560,000 of the total belonging to the Water Enterprise Fund. The water improvements are to be funded by retained earnings in the amount of \$1,600,000 with the remainder supported by other available funds and borrowing. Governmental activities infrastructure improvements of \$940,000 are funded by \$250,000 of available funds (free cash) with the remainder to be supported by \$190,000 from taxation and \$500,000 from borrowing, both of which have been excluded from the limitations of Proposition 2 ½.

**Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town of Harwich, Attn: Finance Director/Town Accountant, 732 Main St., Harwich, MA 02645.

## BASIC FINANCIAL STATEMENTS

**TOWN OF HARWICH, MASSACHUSETTS**

Statement of Net Position

June 30, 2013

|                                                                  | <b>Primary Government</b> |                      |                       |
|------------------------------------------------------------------|---------------------------|----------------------|-----------------------|
|                                                                  | <b>Governmental</b>       | <b>Business-type</b> |                       |
|                                                                  | <b>Activities</b>         | <b>Activities</b>    | <b>Totals</b>         |
| <b>ASSETS</b>                                                    |                           |                      |                       |
| Cash and cash equivalents                                        | \$ 10,563,488             | \$ 3,206,489         | \$ 13,769,977         |
| Investments                                                      | 1,955,206                 |                      | 1,955,206             |
| Receivables, net of allowance for uncollectible                  | 9,616,330                 | 1,225,192            | 10,841,522            |
| Inventories                                                      | 152,242                   |                      | 152,242               |
| Prepaid expense                                                  | 21,111                    |                      | 21,111                |
| Capital assets, net of accumulated depreciation                  | <u>71,711,923</u>         | <u>19,463,803</u>    | <u>91,175,726</u>     |
| Total assets                                                     | 94,020,300                | 23,895,484           | 117,915,784           |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                            |                           |                      |                       |
| Deferred amount on bond refunding                                | <u>234,200</u>            | <u>201,235</u>       | <u>435,435</u>        |
| Total deferred outflows of resources                             | <u>291,832</u>            | <u>230,910</u>       | <u>522,742</u>        |
| Total assets and deferred outflows of resources                  | <u>\$ 94,312,132</u>      | <u>\$ 24,126,394</u> | <u>\$ 118,438,526</u> |
| <b>LIABILITIES</b>                                               |                           |                      |                       |
| Accounts payable                                                 | \$ 1,133,450              | \$ 117,136           | \$ 1,250,586          |
| Salaries and withholding payable                                 | 263,057                   | 18,573               | 281,630               |
| Accrued interest payable                                         | 190,300                   | 89,510               | 279,810               |
| Provision for refund of paid taxes                               | 150,000                   |                      | 150,000               |
| Other current liabilities                                        | 102,991                   |                      | 102,991               |
| Notes payable                                                    | 2,900,000                 |                      | 2,900,000             |
| Noncurrent liabilities:                                          |                           |                      |                       |
| Due within one year                                              | 2,860,765                 | 475,000              | 3,335,765             |
| Due in more than one year                                        | <u>32,627,222</u>         | <u>7,489,500</u>     | <u>40,116,722</u>     |
| Total liabilities                                                | 40,227,785                | 8,189,719            | 48,417,504            |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                             |                           |                      |                       |
| Deferred revenue                                                 | 1,798,263                 |                      | 1,798,263             |
| Unamortized bond premiums                                        | <u>335,761</u>            | <u>232,275</u>       | <u>568,036</u>        |
| Total deferred inflows of resources                              | 2,134,024                 | 232,275              | 2,366,299             |
| <b>NET POSITION</b>                                              |                           |                      |                       |
| Net investment in capital assets                                 | 52,374,860                | 11,558,803           | 63,933,663            |
| Restricted                                                       | 6,087,680                 |                      | 6,087,680             |
| Unrestricted                                                     | <u>(6,512,217)</u>        | <u>4,145,597</u>     | <u>(2,366,620)</u>    |
| Total net position                                               | <u>51,950,323</u>         | <u>15,704,400</u>    | <u>67,654,723</u>     |
| Total liabilities, deferred inflow of resources and net position | <u>\$ 94,312,132</u>      | <u>\$ 24,126,394</u> | <u>\$ 118,438,526</u> |

The accompanying notes are integral part of these financial statements.



**TOWN OF HARWICH, MASSACHUSETTS**  
Statement of Activities  
For the Year Ended June 30, 2013

| Functions/Programs                                              | Program Revenues |                      |                                    |                                  | Net (Expense) Revenue and Changes in Net Position |                          |                |
|-----------------------------------------------------------------|------------------|----------------------|------------------------------------|----------------------------------|---------------------------------------------------|--------------------------|----------------|
|                                                                 | Expenses         | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government                                |                          |                |
|                                                                 |                  |                      |                                    |                                  | Governmental Activities                           | Business-type Activities | Total          |
| <b>Primary government</b>                                       |                  |                      |                                    |                                  |                                                   |                          |                |
| Governmental Activities                                         |                  |                      |                                    |                                  |                                                   |                          |                |
| General government                                              | \$ 2,250,062     | \$ 336,396           | \$ 842,655                         | \$                               | \$ (1,071,011)                                    | \$                       | \$ (1,071,011) |
| Public safety                                                   | 7,699,707        | 1,530,671            | 82,614                             |                                  | (6,086,422)                                       |                          | (6,086,422)    |
| Education                                                       | 21,789,074       | 39,857               |                                    |                                  | (21,749,217)                                      |                          | (21,749,217)   |
| Public works                                                    | 6,390,503        | 1,553,597            |                                    | 667,249                          | (4,169,657)                                       |                          | (4,169,657)    |
| Human services                                                  | 1,769,442        | 148,106              | 452,410                            |                                  | (1,168,926)                                       |                          | (1,168,926)    |
| Culture and recreation                                          | 6,062,384        | 3,089,454            | 63,547                             |                                  | (2,909,383)                                       |                          | (2,909,383)    |
| Employee benefits and other insurance                           | 11,874,605       |                      | 3,437,707                          |                                  | (8,436,898)                                       |                          | (8,436,898)    |
| Interest and other costs                                        | 688,728          |                      | 221,734                            |                                  | (466,994)                                         |                          | (466,994)      |
| State and county charges                                        | 626,146          |                      |                                    |                                  | (626,146)                                         |                          | (626,146)      |
| Total governmental activities                                   | 59,150,651       | 6,698,081            | 5,100,667                          | 667,249                          | (46,684,654)                                      |                          | (46,684,654)   |
| Business-type activities                                        |                  |                      |                                    |                                  |                                                   |                          |                |
| Water                                                           | 3,824,382        | 3,894,809            |                                    |                                  |                                                   | 70,427                   | 70,427         |
| Total business-type activities                                  | 3,824,382        | 3,894,809            |                                    |                                  |                                                   | 70,427                   | 70,427         |
| Total primary government                                        | \$ 62,975,033    | \$ 10,592,890        | \$ 5,100,667                       | \$ 667,249                       | (46,684,654)                                      | 70,427                   | (46,614,227)   |
| <b>General revenues:</b>                                        |                  |                      |                                    |                                  |                                                   |                          |                |
| Property taxes and surcharge                                    |                  |                      |                                    |                                  | 39,164,346                                        |                          | 39,164,346     |
| Excise taxes                                                    |                  |                      |                                    |                                  | 2,609,251                                         |                          | 2,609,251      |
| Penalties and interest on taxes                                 |                  |                      |                                    |                                  | 285,346                                           |                          | 285,346        |
| Grants and contributions not restricted to specific programs    |                  |                      |                                    |                                  | 364,336                                           |                          | 364,336        |
| Investment earnings                                             |                  |                      |                                    |                                  | 52,315                                            | 1,161                    | 53,476         |
| Miscellaneous                                                   |                  |                      |                                    |                                  | 2,125                                             |                          | 2,125          |
| Transfers                                                       |                  |                      |                                    |                                  | (3,394)                                           | 3,394                    |                |
| Total general revenues and transfers                            |                  |                      |                                    |                                  | 42,474,325                                        | 4,555                    | 42,478,880     |
| Excess (deficiency) of revenues and transfers over expenditures |                  |                      |                                    |                                  | (4,210,329)                                       | 74,982                   | (4,135,347)    |
| <b>Extraordinary items:</b>                                     |                  |                      |                                    |                                  |                                                   |                          |                |
| Transfer to Monomoy Regional School District (Note 15)          |                  |                      |                                    |                                  | (1,557,509)                                       |                          | (1,557,509)    |
| Change in net position                                          |                  |                      |                                    |                                  | (5,767,838)                                       | 74,982                   | (5,692,856)    |
| Net position - beginning of year                                |                  |                      |                                    |                                  | 57,718,161                                        | 15,629,418               | 73,347,579     |
| Net position - end of year                                      |                  |                      |                                    |                                  | \$ 51,950,323                                     | \$ 15,704,400            | \$ 67,654,723  |

The accompanying notes are an integral part of these financial statements.

## TOWN OF HARWICH, MASSACHUSETTS

## Balance Sheet

June 30, 2013

|                                                                   | Allen Harbor         |                             |                    |                          |                          |
|-------------------------------------------------------------------|----------------------|-----------------------------|--------------------|--------------------------|--------------------------|
|                                                                   | General Fund         | Community Preservation Fund | Dredging Project   | Other Governmental Funds | Total Governmental Funds |
| <b>ASSETS</b>                                                     |                      |                             |                    |                          |                          |
| Cash and cash equivalents                                         | \$ 5,655,318         | \$ 2,264,777                | \$ 205,095         | \$ 2,438,298             | \$ 10,563,488            |
| Investments                                                       | 1,402,787            |                             |                    | 552,419                  | 1,955,206                |
| Receivables                                                       | 7,377,061            | 390,887                     |                    | 2,137,231                | 9,905,179                |
| Interfund receivable                                              | 47,335               |                             |                    |                          | 47,335                   |
| Inventories                                                       | 2,573                |                             |                    | 149,669                  | 152,242                  |
| Prepaid expenses                                                  | 21,111               |                             |                    |                          | 21,111                   |
| Total assets                                                      | <u>\$ 14,506,185</u> | <u>\$ 2,655,664</u>         | <u>\$ 205,095</u>  | <u>\$ 5,277,617</u>      | <u>\$ 22,644,561</u>     |
| <b>LIABILITIES</b>                                                |                      |                             |                    |                          |                          |
| Warrants and accounts payable                                     | \$ 1,133,450         |                             |                    |                          | \$ 1,133,450             |
| Salaries and withholding payable                                  | 263,057              |                             |                    |                          | 263,057                  |
| Provision for refund of paid taxes                                | 150,000              |                             |                    |                          | 150,000                  |
| Notes payable                                                     |                      |                             | 2,900,000          |                          | 2,900,000                |
| Interfund payable                                                 |                      |                             |                    | 47,335                   | 47,335                   |
| Other liabilities                                                 | 102,991              |                             |                    |                          | 102,991                  |
| Total liabilities                                                 | 1,649,498            |                             | 2,900,000          | 47,335                   | 4,596,833                |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                              |                      |                             |                    |                          |                          |
| Deferred revenue                                                  | 7,245,649            | 390,893                     |                    | 2,022,077                | 9,658,619                |
| Total deferred inflows of resources                               | 7,245,649            | 390,893                     |                    | 2,022,077                | 9,658,619                |
| <b>FUND BALANCE</b>                                               |                      |                             |                    |                          |                          |
| Nonspendable                                                      |                      |                             |                    | 149,669                  | 149,669                  |
| Restricted                                                        | 16,843               | 2,264,771                   |                    | 3,018,312                | 5,299,926                |
| Committed                                                         | 2,883,956            |                             |                    | 40,224                   | 2,924,180                |
| Assigned                                                          | 351,706              |                             |                    |                          | 351,706                  |
| Unassigned                                                        | 2,358,533            |                             | (2,694,905)        |                          | (336,372)                |
| Total fund balance                                                | <u>5,611,038</u>     | <u>2,264,771</u>            | <u>(2,694,905)</u> | <u>3,208,205</u>         | <u>8,389,109</u>         |
| Total liabilities, deferred inflow of resources, and fund balance | <u>\$ 14,506,185</u> | <u>\$ 2,655,664</u>         | <u>\$ 205,095</u>  | <u>\$ 5,277,617</u>      | <u>\$ 22,644,561</u>     |

Amounts reported for governmental activities in the statement of net position are different because:

|                                                                                                                                                                            |                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Total fund balance of governmental funds                                                                                                                                   | \$ 8,389,109         |
| Capital assets used in governmental activities are not financial resources and are not reported on the fund basis.                                                         | 71,711,923           |
| Certain receivables are not available soon enough to pay the current period's expenditures and therefore are deferred on the fund basis.                                   | 7,860,356            |
| Reporting of assets on a full accrual basis requires an estimate for uncollectible amounts.                                                                                | (317,277)            |
| Long term liabilities are not due and payable in the current period and are not included in funds.                                                                         | (35,487,987)         |
| Reporting liabilities on full accrual basis requires associated accrued interest, net of related subsidies and deferred outflows and inflows associated with debt issuance | (263,433)            |
| Net position of governmental activities                                                                                                                                    | <u>\$ 51,892,691</u> |

The accompanying notes are an integral part of these financial statements.

**TOWN OF HARWICH, MASSACHUSETTS**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2013

|                                                        | General Fund        | Community<br>Preservation Fund | Allen Harbor<br>Dredging<br>Project | Other Governmental<br>Funds | Total Governmental<br>Funds |
|--------------------------------------------------------|---------------------|--------------------------------|-------------------------------------|-----------------------------|-----------------------------|
| <b>Revenues:</b>                                       |                     |                                |                                     |                             |                             |
| Property taxes and payments in lieu                    | \$ 38,201,514       | \$ 1,121,346                   | \$                                  | \$                          | \$ 39,322,860               |
| Excise taxes                                           | 2,504,980           |                                |                                     | 24,941                      | 2,529,921                   |
| Licenses, fees and permits                             | 848,300             |                                |                                     |                             | 848,300                     |
| Penalties and interest                                 | 284,945             | 18                             |                                     |                             | 284,963                     |
| Investment earnings                                    | 26,422              | 758                            |                                     | 44,918                      | 72,098                      |
| Charges for services                                   | 981,281             |                                |                                     | 532,641                     | 1,513,922                   |
| Golf course fees                                       | 1,694,280           |                                |                                     |                             | 1,694,280                   |
| Wharfage fees                                          | 817,678             |                                |                                     |                             | 817,678                     |
| Sanitation fees                                        | 1,713,368           |                                |                                     |                             | 1,713,368                   |
| Recreational, and other departmental                   | 404,040             |                                |                                     | 352,240                     | 756,280                     |
| Contributions                                          |                     |                                |                                     | 63,492                      | 63,492                      |
| Intergovernmental                                      | 5,058,338           | 332,698                        |                                     | 821,707                     | 6,212,743                   |
| <b>Total revenues</b>                                  | <b>52,535,146</b>   | <b>1,454,820</b>               |                                     | <b>1,839,939</b>            | <b>55,829,905</b>           |
| <b>Expenditures:</b>                                   |                     |                                |                                     |                             |                             |
| <b>Current:</b>                                        |                     |                                |                                     |                             |                             |
| General government                                     | 2,228,881           | 29,898                         |                                     | 69,383                      | 2,328,162                   |
| Public safety                                          | 7,502,643           |                                |                                     | 68,079                      | 7,570,722                   |
| Education                                              | 20,880,179          | 19,705                         |                                     | 15,425                      | 20,915,309                  |
| Public works                                           | 4,404,862           | 52,223                         |                                     | 690,602                     | 5,147,687                   |
| Human services                                         | 978,810             | 330,000                        |                                     | 351,208                     | 1,660,018                   |
| Culture and recreation                                 | 2,889,257           | 57,712                         | 2,564,933                           | 367,131                     | 5,879,033                   |
| Employee and other insurance                           | 9,715,505           |                                |                                     | 16,728                      | 9,732,233                   |
| State and county assessments                           | 626,146             |                                |                                     |                             | 626,146                     |
| <b>Debt service:</b>                                   |                     |                                |                                     |                             |                             |
| Principal                                              | 3,269,227           |                                |                                     |                             | 3,269,227                   |
| Interest and other charges                             | 707,299             |                                |                                     |                             | 707,299                     |
| <b>Total expenditures</b>                              | <b>53,202,809</b>   | <b>489,538</b>                 | <b>2,564,933</b>                    | <b>1,578,556</b>            | <b>57,835,836</b>           |
| Excess (deficiency) of revenues over expenditures      | (667,663)           | 965,282                        | (2,564,933)                         | 261,383                     | (2,005,931)                 |
| <b>Other financing sources (uses):</b>                 |                     |                                |                                     |                             |                             |
| Premiums from issuance of refunding bonds              | 343,949             |                                |                                     |                             | 343,949                     |
| Issuance costs associated with refunding bonds         | (59,037)            |                                |                                     |                             | (59,037)                    |
| Refunding bond proceeds                                | 3,565,000           |                                |                                     |                             | 3,565,000                   |
| Payment to refunded bond escrow agent                  | (3,849,912)         |                                |                                     |                             | (3,849,912)                 |
| Transfers in                                           | 1,597,119           | 171,140                        |                                     | 56,900                      | 1,825,159                   |
| Transfers out                                          | (228,040)           | (1,159,930)                    |                                     | (440,583)                   | (1,828,553)                 |
| <b>Total other financing sources and uses</b>          | <b>1,369,079</b>    | <b>(988,790)</b>               |                                     | <b>(383,683)</b>            | <b>(3,394)</b>              |
| <b>Extraordinary item:</b>                             |                     |                                |                                     |                             |                             |
| Transfer to Monomoy Regional School District (Note 15) |                     |                                |                                     | (1,557,509)                 | (1,557,509)                 |
| <b>Total extraordinary items</b>                       |                     |                                |                                     | <b>(1,557,509)</b>          | <b>(1,557,509)</b>          |
| <b>Net change in fund balances</b>                     | <b>701,416</b>      | <b>(23,508)</b>                | <b>(2,564,933)</b>                  | <b>(1,679,809)</b>          | <b>(3,566,834)</b>          |
| <b>Fund balances - beginning</b>                       | <b>4,909,622</b>    | <b>2,288,279</b>               | <b>(129,972)</b>                    | <b>4,888,010</b>            | <b>11,955,939</b>           |
| <b>Fund balances - ending</b>                          | <b>\$ 5,611,038</b> | <b>\$ 2,264,771</b>            | <b>\$ (2,694,905)</b>               | <b>\$ 3,208,205</b>         | <b>\$ 8,389,109</b>         |

The accompanying notes are an integral part of these financial statements.

# TOWN OF HARWICH, MASSACHUSETTS

## Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities

For the Year Ended June 30, 2013

|                                                                                            |                |
|--------------------------------------------------------------------------------------------|----------------|
| Revenues and other financing sources over (under)<br>expenditures and other financing uses | \$ (3,566,834) |
|--------------------------------------------------------------------------------------------|----------------|

Governmental funds report capital outlays as expenditures, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the Statement of Activities.

|                                           |             |
|-------------------------------------------|-------------|
| Capital outlays during the fiscal year    | 651,906     |
| Depreciation recorded for the fiscal year | (4,114,318) |

Revenues are recognized on the modified accrual basis of accounting in the fund financial statements, but are recognized on the accrual basis of accounting in the government-wide financial statements.

|                                                    |           |
|----------------------------------------------------|-----------|
| Net change in deferred revenue                     | (781,257) |
| Net change in allowance for uncollectible accounts | (97,554)  |

The issuance and repayment of long-term debt are recorded as other financing sources or uses in the fund financial statements, but have no effect on net assets in the government-wide financial statements. Also, governmental funds report issuance costs, premiums, discounts and similar items as expenditures when paid, whereas these amounts are deferred and amortized on a government-wide basis.

|                                               |           |
|-----------------------------------------------|-----------|
| Principal payments on long-term debt          | 3,269,227 |
| Debt issuance costs associated with refunding | (59,037)  |
| Amortization on bond premiums                 | 8,189     |
| Deferred amount on bond refunding             | (5,712)   |

The fund financial statements record interest on long-term debt when due and revenue from related subsidies when received. The government-wide financial statements report interest on long-term debt and revenue on subsidies when incurred.

|                                            |         |
|--------------------------------------------|---------|
| Net change in accrued interest expense     | 17,500  |
| Net change in accrued revenue on subsidies | (7,108) |

Certain liabilities are not funded through the use of current financial resources and, therefore, are not reported in the fund financial statements, however, these liabilities are reported in the government-wide financial statements. The net change in these liabilities is reflected as an expense in the Statement of Activities. Net changes in liabilities are as follows:

|                                |             |
|--------------------------------|-------------|
| Compensated absences           | (53,600)    |
| Landfill closure               | 18,500      |
| Other post employment benefits | (1,105,372) |

|                                                   |                |
|---------------------------------------------------|----------------|
| Change in net position of governmental activities | \$ (5,825,470) |
|---------------------------------------------------|----------------|

The accompanying notes are an integral part of these financial statements.

**TOWN OF HARWICH, MASSACHUSETTS**  
Statement of Net Position  
Proprietary Funds  
June 30, 2013

|                                                                   | <u>Business-type<br/>Activities</u> | <u>Water Enterprise<br/>Totals</u> |
|-------------------------------------------------------------------|-------------------------------------|------------------------------------|
| <b>ASSETS</b>                                                     |                                     |                                    |
| Cash and cash equivalents                                         | \$ 3,206,489                        |                                    |
| Receivable, net of allowance for uncollectibles                   | 1,225,192                           |                                    |
| Capital assets, net of accumulated depreciation                   | <u>19,463,803</u>                   |                                    |
| Total assets                                                      |                                     | 23,895,484                         |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                             |                                     |                                    |
| Deferred amount on bond refunding                                 |                                     | <u>201,235</u>                     |
| Total deferred outflow of resources                               |                                     | <u>230,910</u>                     |
| Total assets and deferred outflows of resources                   |                                     | <u>\$ 24,126,394</u>               |
| <b>LIABILITIES</b>                                                |                                     |                                    |
| Current liabilities:                                              |                                     |                                    |
| Accounts payable and other liabilities                            | \$ 117,136                          |                                    |
| Salaries and wages and withholdings payable                       | 18,573                              |                                    |
| Accrued interest payable                                          | <u>89,510</u>                       |                                    |
| Total current liabilities                                         |                                     | 225,219                            |
| Non-current liabilities:                                          |                                     |                                    |
| Due within one year                                               | 475,000                             |                                    |
| Due in more than one year                                         | <u>7,489,500</u>                    |                                    |
| Total non-current liabilities                                     |                                     | <u>7,964,500</u>                   |
| Total liabilities                                                 |                                     | 8,189,719                          |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                              |                                     |                                    |
| Unamortized bond premiums                                         |                                     | <u>232,275</u>                     |
| Total deferred inflow of resources                                |                                     | 232,275                            |
| <b>NET POSITION</b>                                               |                                     |                                    |
| Net investment in capital assets                                  |                                     | 11,558,803                         |
| Unrestricted                                                      |                                     | <u>4,145,597</u>                   |
| Total net position                                                |                                     | <u>15,704,400</u>                  |
| Total liabilities, deferred inflows of resources and net position |                                     | <u>\$ 24,126,394</u>               |

The accompanying notes are an integral part of these financial statements.

**TOWN OF HARWICH, MASSACHUSETTS**  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended June 30, 2013

|                                           | <b>Business-type<br/>Activities</b> |
|-------------------------------------------|-------------------------------------|
|                                           | <b>Water Enterprise<br/>Totals</b>  |
| <b>Operating revenues:</b>                |                                     |
| Charges for services                      | \$ 3,830,918                        |
| Departmental and other                    | <u>63,891</u>                       |
| Total operating revenues                  | 3,894,809                           |
| <b>Operating expenses:</b>                |                                     |
| Salaries, wages and employee benefits     | 1,441,589                           |
| Supplies and services                     | 1,006,602                           |
| Repairs and maintenance                   | 9,180                               |
| Depreciation                              | <u>1,087,839</u>                    |
| Total operating expenses                  | <u>3,545,210</u>                    |
| <b>Operating income (loss)</b>            | 349,599                             |
| <b>Non operating revenues (expenses):</b> |                                     |
| Interest and investment revenue           | 1,161                               |
| Interest expense, net amortization        | <u>(279,172)</u>                    |
| Total non-operating revenue (expenses)    | <u>(278,011)</u>                    |
| Income (loss) before transfers            | 71,588                              |
| Transfers in                              | <u>3,394</u>                        |
| Change in net position                    | 74,982                              |
| Net position at beginning of year         | <u>15,629,418</u>                   |
| Net position at end of year               | <u><u>\$ 15,704,400</u></u>         |

The accompanying notes are an integral part of these financial statements.

**TOWN OF HARWICH, MASSACHUSETTS**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended June 30, 2013**

|                                                                                         | <u>Business-type<br/>Activities</u> | <u>Water Enterprise<br/>Totals</u> |
|-----------------------------------------------------------------------------------------|-------------------------------------|------------------------------------|
| <b>Cash flows from operating activities:</b>                                            |                                     |                                    |
| Receipts from customers, users and others                                               | \$ 3,879,559                        |                                    |
| Payments to vendors                                                                     | (1,176,147)                         |                                    |
| Payments to employees, including fringe benefits                                        | <u>(1,434,820)</u>                  |                                    |
| Net cash provided (used) in operating activities                                        | 1,268,592                           |                                    |
| <b>Cash flows from capital and related financing activities:</b>                        |                                     |                                    |
| Payments of long-term debt principal                                                    | (475,000)                           |                                    |
| Purchase of capital assets                                                              | (203,177)                           |                                    |
| Transfer from general fund                                                              | 3,394                               |                                    |
| Payments of interest costs                                                              | <u>(269,759)</u>                    |                                    |
| Net cash provided (used) by capital and related financing activities                    | (944,542)                           |                                    |
| <b>Cash flows from investing activities:</b>                                            |                                     |                                    |
| Investment income                                                                       | <u>1,161</u>                        |                                    |
| Net cash provided by investing activities                                               | <u>1,161</u>                        |                                    |
| Net change in cash and cash equivalents                                                 |                                     | 325,211                            |
| Cash and cash equivalents at beginning of year                                          |                                     | <u>2,881,278</u>                   |
| Cash and cash equivalents at end of year                                                |                                     | <u>\$ 3,206,489</u>                |
| <b>Reconciliation of operating income to net cash provided by operating activities:</b> |                                     |                                    |
| Operating income                                                                        | \$ 349,599                          |                                    |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                                     |                                    |
| Depreciation and amortization                                                           | 1,087,839                           |                                    |
| Changes in assets and liabilities:                                                      |                                     |                                    |
| User fees receivable, net of allowance for collectibles                                 | (15,250)                            |                                    |
| Accounts payable                                                                        | (157,827)                           |                                    |
| Payroll payable and amounts withheld from employees                                     | (1,269)                             |                                    |
| Accrued compensated absences                                                            | <u>5,500</u>                        |                                    |
| Total adjustments                                                                       | <u>918,993</u>                      |                                    |
| Net cash provided by operating activities                                               | <u>\$ 1,268,592</u>                 |                                    |
| <b>Supplementary schedule of noncash capital and related financing activities:</b>      |                                     |                                    |
| Amortization of bond premiums                                                           | \$ 7,730                            |                                    |
| Amortization of deferred amount on bond refunding                                       | <u>(4,908)</u>                      |                                    |
|                                                                                         | <u>\$ 2,822</u>                     |                                    |

The accompanying notes are an integral part of these financial statements.



**TOWN OF HARWICH, MASSACHUSETTS**

**Statement of Fiduciary Net Position**

**Fiduciary Funds**

**June 30, 2013**

|                                                | <b>Private Purpose</b> |                        |
|------------------------------------------------|------------------------|------------------------|
|                                                | <b>Trust Funds</b>     | <b>Agency Accounts</b> |
| <b><u>ASSETS</u></b>                           |                        |                        |
| Cash and cash equivalents                      | \$ 61,718              | \$ 12,768              |
| Investments                                    | 334,474                |                        |
| Detail receivables                             |                        | 14,769                 |
| Total assets                                   | <u>\$ 396,192</u>      | <u>\$ 27,537</u>       |
| <b><u>LIABILITIES</u></b>                      |                        |                        |
| Accounts payable and other current liabilities | <u>\$</u>              | <u>\$ 27,537</u>       |
| Total liabilities                              |                        | 27,537                 |
| <b><u>NET POSITION</u></b>                     |                        |                        |
| Held in trust                                  | <u>396,192</u>         |                        |
| Total liabilities and net position             | <u>\$ 396,192</u>      | <u>\$ 27,537</u>       |

The accompanying notes are an integral part of these financial statements.

**TOWN OF HARWICH, MASSACHUSETTS**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2013**

|                                             | <u><b>Private Purpose<br/>Trust Funds</b></u> |
|---------------------------------------------|-----------------------------------------------|
| <b>Additions:</b>                           |                                               |
| Interest, dividends and market value change | \$ 24,566                                     |
| Total additions                             | 24,566                                        |
| <b>Deductions:</b>                          |                                               |
| Education                                   |                                               |
| Human services                              | 3,121                                         |
| Total deductions                            | 3,121                                         |
| Change in net position                      | 21,445                                        |
| Net position - beginning                    | 374,747                                       |
| Net position - ending                       | <u>\$ 396,192</u>                             |

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

### **Note 1. Organization and Reporting Entity**

#### **A. Organization**

The Town of Harwich, Massachusetts (the "Town"), was incorporated in 1694. The Town operates under a Town Meeting form of government. The Town's operations include police and fire protection, parks, library and recreation, public works and general administrative services. In addition, the Town owns and operates a golf course; operates facilities at three harbors; operates a water system. The Town belongs to a regional school district for education. See also Note 15.

#### **B. Reporting Entity**

##### General

The accompanying financial statements present the Town of Harwich, Massachusetts (the primary government) and its component units. Component units are included in the reporting entity if their operational and financial relationships with the Town are significant. Pursuant to these criteria, the Town did not identify any component units requiring inclusion in the accompanying financial statements.

##### Joint Ventures

The Town has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specific recipients. The following is a list of the Town's significant joint ventures, their purpose, and the annual assessment. Financial statements and additional operational information may be obtained from each the joint ventures by contacting each of them directly. The Town also participates in a cost sharing, joint purchasing group for health insurance. See Note 13.

| <u>Joint venture and address</u>                                                | <u>Purpose</u>                                   | <u>FY 2013 payments</u> |
|---------------------------------------------------------------------------------|--------------------------------------------------|-------------------------|
| Monomoy Regional School District<br>425 Crowell Road<br>Chatham, MA 02633       | To provide education for grades K-12             | \$ 20,337,662           |
| Cape Cod Regional Technical High School<br>Route 124<br>Harwich, MA 02645       | To provide secondary vocational education        | \$ 1,176,213            |
| Cape Cod Regional Transit Authority<br>585 Main Street<br>Dennis, MA 02638      | To provide public transportation                 | \$ 88,630               |
| District Department of Veteran Services<br>PO Box 429<br>Hyannis, MA 02601      | To provide veterans' services                    | \$ 31,216               |
| Pleasant Bay Resource Management Alliance<br>P.O. Box 1584<br>Harwich, MA 02645 | To protect the vast natural resources of the bay | \$ 16,855               |

## TOWN OF HARWICH, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2013

The Monomoy Regional School District (the District) is governed by an eight (8) member school committee consisting of four (4) elected representatives from the two member town. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating, capital, transportation and debt service costs. See also Note 15

The Cape Cod Regional Technical High School (the District) is governed by a twenty-two (22) member school committee elected from the twelve (12) member towns. The Town of Harwich has two (2) representatives on the District's school committee. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating, capital, transportation and debt service costs.

#### Related Organizations

The Harwich Housing Authority is a public body, politic and corporate organized and existing under Massachusetts General Laws, Chapter 121B and thus, the Town has no accountability for this organization. The Board of Commissioners, four who are elected and the fifth appointed by the Commonwealth are legally responsible for the overall operation. During the year Town Meeting appropriated approximately \$300,000 to the Authority from the Community Preservation fund.

#### **Note 2. Summary of Significant Accounting Policies**

##### **A. Basis of Presentation**

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town is discussed below.

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major and other funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Town's police and fire protection, parks, library and recreation, public works, schools, and general administrative services are classified as governmental activities. The Town's water operations are classified as business-type activities.

##### Government-wide Statements

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets, receivables and deferred outflows of resources as well as long-term liabilities, deferred inflows of resources and other liabilities reported on a full accrual basis. The Town's net position is reported in three parts—net investment in capital assets, restricted; and unrestricted. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's governmental functions and business-type activities. Gross expenses (including depreciation) are reduced on the Statement of Activities by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs by function are normally covered by general revenue.

## TOWN OF HARWICH, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2013

Certain costs, such as property and liability insurance, employee fringe benefit costs, among others are not allocated among the Town's functions and are included in employee benefits and other insurance expenses in the Statement of Activities.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

#### Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following governmental fund types are used by the Town:

#### Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds available to the Town:

#### Major Funds

- General Fund is the primary operating fund of the Town. It is used to account for and report all financial resources not accounted for and reported in another fund.
- Community Preservation Fund is a special revenue fund used to account for and report financial resources restricted or committed to expenditure for activities related to open space, historic resources and community housing. Financial resources consist primarily of property tax surcharge and contributions from the Commonwealth of Massachusetts.
- Allen Harbor Dredging Project is a capital project fund used to account for and report financial resources restricted or committed to expenditures related to dredging of the harbor. Resources consist primarily of bond proceeds when issued. While accounted for within a capital project fund, these dredging expenditures do not constitute capital acquisitions for financial reporting purposes. Once permanently financed, the future debt service will be apportioned to applicable taxpayers through betterments.

Non-major governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column of the governmental funds financial statements. These have been aggregated as "other governmental funds" in the fund financial statements. The following describes the general use of these fund types:

- Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted, committed to expenditures for specified purposes other than debt service or capital projects.
- Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Currently, the Town does not utilize a debt service fund.

## TOWN OF HARWICH, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2013

- Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Currently the Town has determined that capital project funds are to account for and report capital assets to be financed through the issuance of debt, except those associated with its water operations which are accounted for in the water enterprise fund. Acquisition of other capital assets are recorded in the fund from which resources were utilized.
- Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town's programs.

#### Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town:

- Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues, has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or establishes fees and charges based on a pricing policy designed to recover similar costs. Although debt related to the water fund is not secured solely with water fund net revenues, the Town has elected to report it as an enterprise fund for financial reporting purposes as it is maintained in accordance with state guidance.
- Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the Town on a cost-reimbursement basis. The Town is currently not using any internal service funds.

#### Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds. The following is a description of the fiduciary funds of the Town:

- Private purpose trust funds account for resources legally held in trust for the benefit of persons and organizations other than the Town. Since these funds can not be used for providing Town services, they are excluded from the Town's government-wide financial statements.
- Agency funds are used to hold funds on behalf of parties other than the Town, including federal, state agencies and other third parties. Agency funds are custodial in nature and do not involve measurement of results of operations.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB pronouncements set forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Town may electively add funds, as major funds, which have specific community focus. The nonmajor funds are combined in a column in the fund financial statements as "other governmental funds".



## TOWN OF HARWICH, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2013

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

#### **B. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and property tax revenues are considered available if they are collected within 60 days after fiscal year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt, or earlier, if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

#### **C. Cash and Investments**

The Town has not adopted formal deposit and investment policies. The Town Treasurer manages funds pursuant to Massachusetts General Laws.

For the purpose of the Statement of Net Position, Balance Sheet and proprietary funds' Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts. Any certificates of deposit have been classified as investments for financial reporting purposes.

Investments are reported at fair value, which is determined using selected bases. Short-term investments with maturity dates of not more than ninety days from date of purchase are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Certificates of deposit are reported at carrying value, which reasonably estimates fair value. Additional cash and investment information, and fair values are presented in these notes.

## TOWN OF HARWICH, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2013

#### **D. Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

#### **E. Receivables**

Receivables consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The Town classifies outstanding personal property taxes and motor vehicle and boat excise three or more years old as uncollectible for financial reporting purposes. The Town estimates 3% and 2% of outstanding transfer station and water charges, respectively and 35% of ambulance charges to be uncollectible. Outstanding real estate taxes are secured by tax liens, and therefore the Town considers such receivables to be fully collectible.

#### **F. Inventories**

Inventory items are valued at the lower of cost (first in, first out) or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than consumed. Inventories consists primarily of golf related items to be sold at the golf course and reported in a special revenue fund.

#### **G. Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

#### **Government-wide Statements**

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002. The Town maintains a capitalization threshold of \$25,000 per asset.

Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation netted against the cost of capital assets in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

|                           |             |
|---------------------------|-------------|
| ➤ Buildings               | 25-50 years |
| ➤ Improvements            | 10-50 years |
| ➤ Machinery and Equipment | 3-20 years  |
| ➤ Infrastructure          | 25-50 years |

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

### Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

### H. Deferred Outflows and Deferred Inflows

Deferred outflows of resources, as applicable, represent a consumption of assets by the government that is applicable to a future reporting period. These *deferred outflows of resources* have a positive effect on net position. Deferred inflows of resources, as applicable, represent the acquisition of assets by the government that is applicable to a future reporting period. These *deferred inflows of resources* have a negative effect on net position. These amounts are reported in government-wide and fund financial statements based upon the nature of the items.

### I. Liabilities

Liabilities represent *present obligations* to sacrifice resources for which the government has *little or no discretion to avoid*. The primary focus is on the obligation for the government to perform. The accounting treatment for these obligations depends on whether they are reported in the government-wide or fund financial statements.

Current liabilities are reported in both the fund and government-wide financial statements. Current liabilities represent obligations incurred in the operating cycle for acquisition goods, services, accruals for salaries and wages, and other obligations due or generally expected to be liquidated within one year from the balance sheet date. Government-wide financial statements also report other current liabilities such as accrued interest, which is reported on a full accrual basis.

Generally, all noncurrent (long term) liabilities are not reported as liabilities in the fund financial statements, but are reported in the government-wide statements. Such obligations consist primarily of such obligations as bonds payable, capital leases, compensated absences, estimated landfill post-closure monitoring and other post-employment obligations.

### J. Compensated Absences

The Town's policies and provisions of bargaining unit contracts regarding vacation and sick time permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term obligations in the government-wide statements and in the business-type activities.

### K. Equity Classifications

#### Government-wide Statements

Equity is classified as net position in the government-wide financial statements. The Town utilizes resources which have been restricted prior to utilizing unrestricted resources. Net position is displayed in the following three components:

## TOWN OF HARWICH, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2013

- Net investment in capital assets— This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.
- Restricted — This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. These assets may be restricted by constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted—This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

#### Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The Town does not maintain any minimum fund balance policies. Fund balance can be classified in the following components:

- Nonspendable fund balance – consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts upon which constraints have been placed on their use either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – consist of amounts which can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest decision making (Town Meeting) and requires such approval for any modification or rescission.
- Assigned fund balance – consist of amounts that are constrained by the Town's intent to be used for a specific purpose. Intent is expressed by (a) the governing body itself, or (b) a body, or official to which the governing body has delegated the authority to assigned amounts to be used for specific purposes. Amounts may be assigned by Town Meeting, Board of Selectmen, or other boards and officials directly responsible for departmental appropriations
- Unassigned fund balance – represents the residual classification for remaining fund balance. It represents amounts that have not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes.

The Town spends restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds were designated for one purpose at the time of their creation. Therefore, any expenditure made from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

## **TOWN OF HARWICH, MASSACHUSETTS**

### **Notes to Financial Statements**

June 30, 2013

#### **L. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results will differ from those estimates.

#### **M. Total Columns**

The total column presented on the government-wide financial statements represents consolidated financial information. The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

#### **Note 3. Stewardship, Compliance and Accountability**

##### **A. Property Tax Calendar and Limitations**

Real and personal property taxes are based on values assessed as of each January 1 and are due on a quarterly basis during the fiscal year. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to lien, interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy.

A statewide property tax limitation statute known as "Proposition 2 ½" limits the property tax levy to an amount equal to 2 ½ % of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2 ½ %, plus taxes levied on certain property newly added to the tax rolls ("new growth"). Certain Proposition 2 ½ taxing limitations can be overridden by a town-wide referendum vote.

##### **B. Budgetary Basis of Accounting**

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the Town, including available surplus funds.

The budgets for all departments and operations of the Town. Education budgets are prepared under the direction of the respective regional school district school committees. District assessments must be accepted by Town Meeting. Original and supplemental appropriations are acted upon by vote of Town Meeting. All general fund and enterprise fund functions are budgeted; the town does not have legally adopted annual budgets for its special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

### C. Fund Equities

Operations of the various Town funds for the fiscal year were funded in accordance with the General Laws of Massachusetts. The Town classifies fund equity in the fund financial statements as either nonspendable, restricted, committed, or assigned for specific purposes. The residual is reported as unassigned fund balance. As of June 30, 2013, the classification of the Town's fund balances can be detailed as follows:

|                        | <u>General<br/>Fund</u> | <u>Community<br/>Preservation<br/>Fund</u> | <u>Allen Harbor<br/>Dredging<br/>Project</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total</u>        |
|------------------------|-------------------------|--------------------------------------------|----------------------------------------------|-----------------------------------------|---------------------|
| <b>Nonspendable:</b>   |                         |                                            |                                              |                                         |                     |
| Inventories            | \$ -                    | \$ -                                       | \$ -                                         | \$ 149,669                              | \$ 149,669          |
| Subtotal               | -                       | -                                          | -                                            | 149,669                                 | 149,669             |
| <b>Restricted:</b>     |                         |                                            |                                              |                                         |                     |
| General government     |                         | 2,264,771                                  |                                              | 808,194                                 | 3,072,965           |
| Public safety          |                         |                                            |                                              | 182,172                                 | 182,172             |
| Education              |                         |                                            |                                              | 17,643                                  | 17,643              |
| Public works           |                         |                                            |                                              | 322,174                                 | 322,174             |
| Human services         |                         |                                            |                                              | 527,363                                 | 527,363             |
| Culture and recreation |                         |                                            |                                              | 1,160,766                               | 1,160,766           |
| Debt service           | 16,843                  | -                                          | -                                            | -                                       | 16,843              |
| Subtotal               | 16,843                  | 2,264,771                                  | -                                            | 3,018,312                               | 5,299,926           |
| <b>Committed:</b>      |                         |                                            |                                              |                                         |                     |
| General government     | 885,561                 |                                            |                                              | 7,610                                   | 893,171             |
| Public safety          | 310,130                 |                                            |                                              | 3,309                                   | 313,439             |
| Education              | 17                      |                                            |                                              |                                         | 17                  |
| Public works           | 1,259,169               |                                            |                                              |                                         | 1,259,169           |
| Human services         | 13,248                  |                                            |                                              |                                         | 13,248              |
| Culture & recreation   | 415,831                 | -                                          | -                                            | 29,305                                  | 445,136             |
| Subtotal               | 2,883,956               | -                                          | -                                            | 40,224                                  | 2,924,180           |
| <b>Assigned:</b>       |                         |                                            |                                              |                                         |                     |
| General government     | 44,464                  |                                            |                                              |                                         | 44,464              |
| Public works           | 1,480                   |                                            |                                              |                                         | 1,480               |
| Human services         | 300                     |                                            |                                              |                                         | 300                 |
| Culture & recreation   | 5,022                   |                                            |                                              |                                         | 5,022               |
| OPEB                   | 300,440                 | -                                          | -                                            | -                                       | 300,440             |
| Subtotal               | 351,706                 | -                                          | -                                            | -                                       | 351,706             |
| <b>Unassigned</b>      | 2,358,533               | -                                          | ( 2,694,905)                                 | -                                       | ( 336,372)          |
| <b>Total</b>           | <u>\$ 5,611,038</u>     | <u>\$ 2,264,771</u>                        | <u>\$ ( 2,694,905)</u>                       | <u>\$ 3,208,205</u>                     | <u>\$ 8,389,109</u> |

The Town's stabilization funds are reported with the General fund since each fund is designed to maintain funds set aside by town meeting votes, and is not funded by a specific revenue source. In accordance with Massachusetts General Law Chapter 40, Section 5B, for the purpose of creating one or more stabilization funds, towns may appropriate in any year an amount not exceeding, in the aggregate, 10% of the amount raised in the preceding fiscal year by taxation of real estate and personal property and the aggregate amount in such funds may not exceed 10% of the equalized valuation. At annual or special town meeting the Town with two-thirds vote may create a stabilization fund, specify or change the purpose of any stabilization fund, and appropriate into or out of any such fund. The Town's stabilization funds and year end balances are as follows:

|                            |            |
|----------------------------|------------|
| Stabilization fund         | \$ 993,730 |
| GASB 45 stabilization fund | \$300,440  |

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

The GASB 45 stabilization fund has been established with the intent to accumulate resources for future other post employment benefits (OPEB). This fund is not irrevocable, and has been reported as assigned fund balance. During fiscal year 2013, Town Meeting has voted to establish an irrevocable trust in accordance with current state statute, however, there currently has been no funding or related policy established.

Deficit unassigned fund balance for the Town's other governmental funds consisted primarily of the following. Long term financing for the capital project was completed in July 2013.

|                                                  |                |
|--------------------------------------------------|----------------|
| Capital projects - Allen Harbor dredging project | \$ (2,694,905) |
|--------------------------------------------------|----------------|

### **D. Restricted Net Position**

Restricted net position on the government-wide statement of net assets consist of the following:

|                             |                     |
|-----------------------------|---------------------|
| Capital Project Funds       | \$ 142,937          |
| Special Revenue Funds:      |                     |
| Community Preservation Fund | 2,655,664           |
| Other special revenue funds | <u>3,289,079</u>    |
| Total restricted net assets | <u>\$ 6,087,680</u> |

### **Note 4. Cash and Investments**

Massachusetts General Laws, Chapter 44, Sections 54 and 55, place certain limitations on cash deposits and investments available to the Town. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. Deposits may not exceed certain levels without collateralization of the excess by the financial institution involved. The Town may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof having a maturity from date of purchase of one year or less. The Town may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The Town may invest in units of the Massachusetts Municipal Depository Trust (MMDT), an external investment pool managed by the Treasurer of the Commonwealth of Massachusetts. Cash deposits are reported at carrying amount, which reasonably approximates fair value. The Town has not adopted any formalized depository and investment policies.

The Town maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town does not have a formal deposit policy for custodial credit risk. At June 30, 2013 deposits totaled \$14,132,417 and had a carrying amount of \$13,844,463. Of the deposit amounts, \$7,827,845 was exposed to custodial credit risk at June 30, 2013 because it was uninsured and was not collateralized by securities held specifically in the Town's name. However, the financial institution, Century Bank, has pledged debt securities issued by the U.S. Government and U.S. Sponsored Enterprises held by a third party custodian chosen by the bank. The difference between deposit amounts and carrying amounts represents outstanding checks, deposits in transit and other reconciling items.

*Custodial credit risk* for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have an depository and investment policy covering custodial credit risk.



# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

*Interest rate risk* is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Town does not have an investment policy regarding interest rate risk. The approximate maturities of the Town's investments are disclosed in the following table:

| <u>Investment Type</u>        | <u>Fair Market Value</u> | <u>Not Applicable</u> | <u>Maturity 12 months or less</u> | <u>13 – 24 months</u> |
|-------------------------------|--------------------------|-----------------------|-----------------------------------|-----------------------|
| Governmental activities:      |                          |                       |                                   |                       |
| Certificates of deposit       | \$ 1,552,969             | \$ -                  | \$ 451,685                        | \$ 1,101,284          |
| Equities                      | 275,291                  | 275,291               |                                   |                       |
| Mutual funds-bonds            | 126,946                  | 126,946               | -                                 | -                     |
| Total governmental activities | <u>\$ 1,955,206</u>      | <u>\$ 360,525</u>     | <u>\$1,089,513</u>                | <u>\$ 101,348</u>     |
| Fiduciary activities          |                          |                       |                                   |                       |
| Equities                      | \$ 184,951               | \$ 184,951            |                                   |                       |
| Mutual funds-bonds            | 60,182                   | 60,182                |                                   |                       |
| Other indexed funds           | 89,341                   | 89,341                |                                   |                       |
| Total fiduciary activities    | <u>\$ 334,474</u>        | <u>\$ 334,474</u>     |                                   |                       |

*Credit risk* is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed in the following table. Equity securities, money market funds, repurchase agreements and equity mutual funds are not rated as to credit risk. The Town does not have an investment policy limiting its investment choices. The following table discloses the credit risk associated with the Town's investments using Standard & Poor's rating classifications as applicable:

| <u>Investment Type</u>        | <u>Fair Market Value</u> | <u>Exempt from Disclosure</u> | <u>AAA</u>  | <u>AA to A</u> | <u>Not Applicable or not rated</u> |
|-------------------------------|--------------------------|-------------------------------|-------------|----------------|------------------------------------|
| Governmental activities:      |                          |                               |             |                |                                    |
| Certificates of deposit       | \$ 1,552,969             | \$ -                          | \$ -        | \$ -           | \$ 1,552,969                       |
| Equities                      | 275,291                  | -                             | -           | -              | 275,291                            |
| Mutual funds-bonds            | 126,946                  | -                             | -           | -              | 126,946                            |
| Total governmental activities | <u>\$ 1,955,206</u>      | <u>\$ -</u>                   | <u>\$ -</u> | <u>\$ -</u>    | <u>\$ 1,955,206</u>                |
| Fiduciary activities:         |                          |                               |             |                |                                    |
| Equities                      | \$ 184,951               | \$ -                          | \$ -        | \$ -           | \$ 184,951                         |
| Mutual funds - bonds          | 60,182                   | -                             | -           | -              | 60,182                             |
| Other indexed funds           | 89,341                   | -                             | -           | -              | 89,341                             |
| Total fiduciary activities    | <u>\$ 334,474</u>        | <u>\$ -</u>                   | <u>\$ -</u> | <u>\$ -</u>    | <u>\$ 334,474</u>                  |

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

*Concentration of credit risk* – The Town does not have an investment policy limiting the amount that can be invested in any one issuer or security. Excluding U.S. federal agency securities, external investment pools, and certificates of deposit there are no securities or issuers that represent more than 5% of the total investments of the governmental activities. Most of the equities and other indexed funds of the fiduciary investments exceed 5% of the fiduciary investment total. These investments are maintained by an independent broker under the control and direction of trustees independent of the town treasurer pursuant to a separate trust arrangement.

### **Note 5. Receivables**

The Town reports the aggregate amount of receivables in the accompanying Statement of Net Position and Balance Sheet. In addition, governmental funds report, on the Balance Sheet, deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have not yet been received and relate to a future reporting period. These deferred revenues have been reported as deferred inflows of resources in the financial statements.

The Town includes the following receivables for individual major and non-major governmental funds, and fiduciary funds in the aggregate, including applicable allowances for uncollectible amounts and amounts deferred:

| <u>Receivable type</u>                                                        | <u>Gross Amount</u> | <u>Allowance for Uncollectible</u> | <u>Net Amount</u>   | <u>Deferred Revenue</u> |
|-------------------------------------------------------------------------------|---------------------|------------------------------------|---------------------|-------------------------|
| Real estate, surcharge, personal property taxes                               | \$ 659,052          | \$ 3,855                           | \$ 655,197          | \$ 527,644              |
| Tax liens, deferrals and foreclosures                                         | 2,565,336           |                                    | 2,565,336           | 2,565,336               |
| Motor vehicle and other excise                                                | 223,294             | 25,731                             | 197,563             | 223,294                 |
| Ambulance                                                                     | 817,970             | 286,000                            | 531,970             | 817,970                 |
| Betterments, departmental and other                                           | 309,819             | 1,691                              | 308,128             | 309,819                 |
| Intergovernmental:                                                            |                     |                                    |                     |                         |
| Massachusetts grants and other                                                | 358,883             |                                    | 358,883             | 358,883                 |
| Massachusetts highway awards                                                  | 1,913,416           |                                    | 1,913,416           | 1,798,264               |
| Massachusetts School Building Assistance<br>(to be collected in future years) | <u>3,057,409</u>    |                                    | <u>3,057,409</u>    | <u>3,057,409</u>        |
| Totals – Governmental Fund Basis                                              | 9,905,179           |                                    |                     | <u>\$ 9,658,619</u>     |
| Accrued MSBA interest subsidy                                                 | <u>28,428</u>       | <u>-</u>                           | <u>28,428</u>       |                         |
| Totals – Entity-wide Basis                                                    | <u>\$ 9,933,607</u> | <u>\$ 317,277</u>                  | <u>\$ 9,616,330</u> |                         |

Massachusetts highway awards (Chapter 90) are awarded to the Town on an annual basis. The Town submits for reimbursement upon completion of approved project expenditures. As of June 30, 2013, the Town has accrued \$115,154 of highway funds. Accordingly, in the government-wide financial statements the Town has reported \$1,798,263 as deferred inflow of resources associated with these awards.

Receivables for the Town's business-type activities consist of the following:

| <u>Receivable type</u>      | <u>Gross Amount</u> | <u>Allowance for Uncollectible</u> | <u>Net Amount</u>   |
|-----------------------------|---------------------|------------------------------------|---------------------|
| Water rates, charges, liens | \$ 160,392          | \$ 3,800                           | \$ 156,592          |
| Unbilled water rates        | <u>1,102,000</u>    | <u>33,400</u>                      | <u>1,068,600</u>    |
| Totals                      | <u>\$ 1,262,392</u> | <u>\$ 37,200</u>                   | <u>\$ 1,225,192</u> |

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

### Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows. Certain beginning balances have been restated to the current year presentation.

|                                       | (restated)<br>Beginning<br>Balances | Increases             | Decreases   | Ending<br>Balances   |
|---------------------------------------|-------------------------------------|-----------------------|-------------|----------------------|
| <b>Governmental activities:</b>       |                                     |                       |             |                      |
| Capital assets not being depreciated: |                                     |                       |             |                      |
| Land                                  | \$ 21,089,034                       | \$ -                  | \$ -        | \$ 21,089,034        |
| Construction in progress              | -                                   | 641,455               | -           | 641,455              |
| Sub-total                             | 21,089,034                          | 641,455               |             | 21,730,489           |
| Capital assets being depreciated:     |                                     |                       |             |                      |
| Buildings and related improvements    | 56,998,955                          | 9,727                 |             | 57,008,682           |
| Improvements other than buildings     | 4,879,900                           | 724                   |             | 4,880,624            |
| Equipment, machinery & vehicles       | 10,307,393                          |                       | (120,332)   | 10,187,061           |
| Infrastructure                        | 77,072,736                          | -                     | -           | 77,072,736           |
| Sub-total                             | 149,258,984                         | 10,451                | ( 120,332)  | 149,149,103          |
| Less accumulated depreciation:        |                                     |                       |             |                      |
| Buildings and related improvements    | 28,324,149                          | 1,844,586             |             | 30,168,735           |
| Improvements other than buildings     | 2,812,590                           | 225,881               |             | 3,038,471            |
| Equipment, machinery & vehicles       | 7,519,957                           | 387,232               | (120,332)   | 7,786,857            |
| Infrastructure                        | 56,516,987                          | 1,656,619             | -           | 58,173,606           |
| Sub-total                             | 95,173,683                          | 4,114,318             | ( 120,332)  | 99,167,669           |
| Governmental capital assets, net      | <u>\$ 75,174,335</u>                | <u>\$ (3,462,412)</u> | <u>\$ -</u> | <u>\$ 71,711,923</u> |

|                                       | Beginning<br>Balances | Increases           | Decreases   | Ending<br>Balances   |
|---------------------------------------|-----------------------|---------------------|-------------|----------------------|
| <b>Business-type activities:</b>      |                       |                     |             |                      |
| Capital assets not being depreciated: |                       |                     |             |                      |
| Land                                  | \$ 1,505,893          | \$ -                | \$ -        | \$ 1,505,893         |
| Construction in progress              | -                     | -                   | -           | -                    |
| Sub-total                             | 1,505,893             |                     |             | 1,505,893            |
| Capital assets being depreciated:     |                       |                     |             |                      |
| Buildings and related improvements    | 4,606,543             |                     |             | 4,683,538            |
| Equipment, machinery & vehicles       | 2,086,509             | 76,995              |             | 2,086,509            |
| Infrastructure                        | 36,175,021            | 126,182             | -           | 36,301,203           |
| Sub-total                             | 42,868,073            | 203,177             | -           | 43,071,250           |
| Less accumulated depreciation:        |                       |                     |             |                      |
| Buildings and related improvements    | 158,862               | 127,593             |             | 286,455              |
| Equipment, machinery & vehicles       | 486,917               | 139,788             |             | 626,705              |
| Infrastructure                        | 23,379,722            | 820,458             | -           | 24,200,180           |
| Sub-total                             | 24,025,501            | 1,087,839           | -           | 25,113,340           |
| Business-type capital assets, net     | <u>\$ 20,348,465</u>  | <u>\$ (884,662)</u> | <u>\$ -</u> | <u>\$ 19,463,803</u> |

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

Depreciation expense was charged to functions/programs of the primary government as follows:

|                                                      |                     |
|------------------------------------------------------|---------------------|
| Governmental activities:                             |                     |
| General government                                   | \$ 125,397          |
| Public safety                                        | 599,582             |
| Education                                            | 873,765             |
| Public works                                         | 2,009,548           |
| Health services                                      | 173,924             |
| Culture and recreation                               | <u>332,102</u>      |
| Total depreciation expense — governmental activities | <u>\$ 4,114,318</u> |
| Business-type activities:                            |                     |
| Water/Total                                          | <u>\$ 1,087,839</u> |

### Note 7. Interfund Balances and Activity

There were no inter-fund receivables/payables at June 30, 2013. Inter-fund transfers for the fiscal year ended June 30, 2013, consisted of the following:

|                                                                                                               | <u>Governmental</u><br><u>Fund basis</u><br><br><u>General</u><br><u>Fund</u> | <u>Governmental</u><br><u>Fund basis</u><br><u>Community</u><br><u>Preservation</u><br><u>Fund</u> | <u>Governmental</u><br><u>Fund basis</u><br><u>Other</u><br><u>Governmental</u><br><u>Funds</u> | <u>Business-type</u><br><u>Activities</u><br><u>Water</u><br><u>Fund</u> |
|---------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Amounts transferred from special revenue funds to general fund to fund fiscal year budget and other transfers | \$ 437,189                                                                    | \$ -                                                                                               | \$ ( 440,583 )                                                                                  | \$ 3,394                                                                 |
| Transfers for police/fire claims and cemetery                                                                 | (56,900)                                                                      |                                                                                                    | 56,900                                                                                          |                                                                          |
| Land acquisition article appropriated at Special Town Meeting                                                 | 400,000                                                                       | (400,000)                                                                                          |                                                                                                 |                                                                          |
| Transfers to CPA fund for articles appropriated and debt service savings                                      | (171,140)                                                                     | 171,140                                                                                            |                                                                                                 |                                                                          |
| Amounts transferred from Community Preservation Act (CPA fund) to fund related fiscal year debt service       | <u>759,930</u>                                                                | <u>(759,930)</u>                                                                                   | <u>-</u>                                                                                        | <u>-</u>                                                                 |
| Total net transfers                                                                                           | <u>\$ 1,369,079</u>                                                           | <u>\$ (988,790)</u>                                                                                | <u>\$ ( 383,683 )</u>                                                                           | <u>\$ 3,394</u>                                                          |

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

### Note 8. Long-term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2013:

| <u>Purpose</u>                                                                                       | <u>Balance<br/>July 01, 2012</u> | <u>Additions</u>    | <u>Reductions</u>   | <u>(Refunded)</u>      | <u>Balance<br/>June 30, 2013</u> | <u>Current<br/>Portion</u> |
|------------------------------------------------------------------------------------------------------|----------------------------------|---------------------|---------------------|------------------------|----------------------------------|----------------------------|
| <b>Governmental activities:</b>                                                                      |                                  |                     |                     |                        |                                  |                            |
| Municipal purpose bonds, 4.00%, dtd 9/15/2001, due 9/15/2013                                         | \$ 1,050,000                     | \$ -                | \$ 1,050,000        | \$ -                   | \$ -                             | \$ -                       |
| Golf clubhouse bonds, 4.17%, dtd 11/1/2002, current refunding                                        | 565,000                          |                     | 65,000              | ( 500,000)             |                                  |                            |
| Refunding 2002 issue, Golf clubhouse dtd 10/2012, 2.0-3.0%, due 11/1/2022                            |                                  | 485,000             |                     |                        | 485,000                          | 65,000                     |
| Land acquisition bonds, 4.17%, dtd 11/1/2002, current refunding                                      | 360,000                          |                     | 40,000              | ( 320,000)             |                                  |                            |
| Refunding 2002, issues, Land acquisition, 2.0-3.0% dtd 10/2012, due 11/1/2022                        |                                  | 310,000             |                     |                        | 310,000                          | 40,000                     |
| General obligation bonds, 3.75%, dtd 12/1/2003, advance refunding                                    | 2,780,000                        |                     | 245,000             | ( 2,295,000)           | 240,000                          | 240,000                    |
| Refunding 2003, issues, advance, 2.0-3.0%, dtd 10/2012, due 11/1/2013                                |                                  | 2,265,000           |                     |                        | 2,265,000                        | 5,000                      |
| Golf irrigation system bonds, 4.29%, dtd 3/15/2005, advance refunding                                | 840,000                          |                     | 115,000             | ( 495,000)             | 230,000                          | 115,000                    |
| Refunding 2003, issues Golf irrigation, advance, 2.0-3.0%, dtd 10/2012, due 11/1/2013                |                                  | 505,000             |                     |                        | 505,000                          | 5,000                      |
| Road betterment bonds, 2.00 to 4.00%, dtd 10/1/2011, due 10/1/2022                                   | 162,000                          |                     | 22,000              |                        | 140,000                          | 20,000                     |
| Land acquisition bonds, 3.68%, dtd 6/15/2005, due 6/15/2020                                          | 715,000                          |                     | 90,000              |                        | 625,000                          | 90,000                     |
| Golf course bonds, 4.00 to 5.75%, dtd 10/15/2006, due 11/15/2021                                     | 775,000                          |                     | 80,000              |                        | 695,000                          | 80,000                     |
| School roof bonds, 4.00 to 5.75%, dtd 10/15/2006, due 11/15/2021                                     | 505,000                          |                     | 55,000              |                        | 450,000                          | 55,000                     |
| Remodeling bonds, 4.00 to 5.75%, dtd 10/15/2006, due 11/15/2021                                      | 110,000                          |                     | 15,000              |                        | 95,000                           | 15,000                     |
| Police station bonds, 4.15%, dtd 4/1/2008, due 4/1/2013                                              | 100,000                          |                     | 100,000             |                        |                                  |                            |
| Sewer C'WMP bonds, 4.15%, dtd 4/1/2008, due 4/1/2013                                                 | 100,000                          |                     | 100,000             |                        |                                  |                            |
| Road maintenance bonds, 4.15%, dtd 4/1/2008, due 4/1/2013                                            | 200,000                          |                     | 200,000             |                        |                                  |                            |
| Police Station bonds, 4.25%, dtd 2/15/2009, due 2/15/2029                                            | 7,400,000                        |                     | 450,000             |                        | 6,950,000                        | 450,000                    |
| Refunding bonds, 2.00 to 5.00%, dtd 9/16/2009, due 9/15/2020                                         | 7,105,000                        |                     | 615,000             |                        | 6,490,000                        | 1,635,000                  |
| Road maintenance bonds, 2.00 to 5.00%, dtd 9/16/2009, due 9/15/2020                                  | 70,000                           |                     | 10,000              |                        | 60,000                           | 10,000                     |
| Massachusetts Water Pollution Abatement Trust, subsidized septic bonds, dtd. 5/5/2005, due 8/1/2023  | 76,084                           |                     | 6,398               |                        | 69,686                           | 6,436                      |
| Massachusetts Water Pollution Abatement Trust, subsidized septic bonds, dtd. 10/6/1999, due 8/1/2020 | 97,679                           | -                   | 10,829              | -                      | 86,850                           | 10,829                     |
| Total long-term bonds                                                                                | 23,010,763                       | 3,565,000           | 3,269,227           | ( 3,610,000)           | 19,696,536                       | 2,842,265                  |
| Other post employment benefits                                                                       | 13,316,079                       | 2,921,960           | 1,816,588           |                        | 14,421,451                       |                            |
| Landfill closure and monitoring liability                                                            | 351,500                          |                     | 18,500              |                        | 333,000                          | 18,500                     |
| Compensated absences, net                                                                            | 983,400                          | 53,600              | -                   | -                      | 1,037,000                        | -                          |
| Total governmental activities                                                                        | <u>\$ 37,661,742</u>             | <u>\$ 6,540,560</u> | <u>\$ 5,104,315</u> | <u>\$ ( 3,610,000)</u> | <u>\$ 35,487,987</u>             | <u>\$ 2,860,765</u>        |

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

| <u>Purpose</u>                                                                 | <u>(restated)<br/>Balance<br/>July 01, 2012</u> | <u>Additions</u>    | <u>Reductions</u> | <u>(Refunded)</u>      | <u>Balance<br/>June 30, 2013</u> | <u>Current<br/>Portion</u> |
|--------------------------------------------------------------------------------|-------------------------------------------------|---------------------|-------------------|------------------------|----------------------------------|----------------------------|
| <b>Business-type activities:</b>                                               |                                                 |                     |                   |                        |                                  |                            |
| Water tank construction bonds, 4.29%,<br>dtd 3/15/2005, refunded               | \$ 2,100,000                                    | \$ -                | \$ 100,000        | \$( 1,805,000)         | \$ 195,000                       | \$ 100,000                 |
| Water treatment facility bonds, 2.00 to<br>4.00%, dtd 10/1/2011, due 10/1/2036 | 3,250,000                                       |                     | 130,000           |                        | 3,120,000                        | 130,000                    |
| Water tank construction bonds, 2.00 to<br>4.00%, dtd 10/1/2011, due 10/1/2022  | 1,550,000                                       |                     | 155,000           |                        | 1,395,000                        | 155,000                    |
| Water treatment facility bonds, 3.42%,<br>dtd 3/15/2010, due 3/15/2030         | 1,350,000                                       |                     | 75,000            |                        | 1,275,000                        | 75,000                     |
| Refunding issue of 2005, 4.0-5.0%, dtd<br>10/16/2012, due 3/15/2034            |                                                 | 1,920,000           |                   |                        | \$1,920,000                      | \$ 15,000                  |
| Well exploration bonds, 4.13%, dtd<br>11/1/2002, due 11/1/2012                 | <u>15,000</u>                                   | <u>-</u>            | <u>15,000</u>     | <u>-</u>               | <u>-</u>                         | <u>-</u>                   |
| Total bonds payable                                                            | 8,265,000                                       | 1,920,000           | 475,000           | \$( 1,805,000 )        | 7,905,000                        | 475,000                    |
| Compensated absences, net                                                      | <u>54,000</u>                                   | <u>5,500</u>        | <u>-</u>          | <u>-</u>               | <u>59,500</u>                    | <u>-</u>                   |
| Total business-type activities<br>noncurrent liabilities                       | <u>\$ 8,319,000</u>                             | <u>\$ 1,925,500</u> | <u>\$ 475,000</u> | <u>\$ ( 1,805,000)</u> | <u>\$ 7,964,500</u>              | <u>\$ 475,000</u>          |

### Long-term debt

In October 2012, the Town issued refunding bonds in the aggregate of \$5,485,000 of which, \$3,565,000 and \$1,920,000 related to governmental and business-type activities respectively. These refunding bonds refunded on a current and advance basis \$5,415,000 of bonds issued in previous years. This amounted to \$3,610,000 of issues related to governmental activities and \$1,805,000 related to business-type activities. At the time of refunding, the Town received an aggregate premium of \$465,492 and incurred net issuance costs of \$89,437 associated with the refunding bonds. As a result of the refunding, an aggregate of \$5,861,055 was used to purchase U.S. government securities deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds were repaid pursuant to the refunding agreement. As a result of the refunding, the Town reduced its debt service through 2034 by \$741,301, and obtained an economic gain (difference between the present values of the old and new debt service payouts of \$653,263). The issuance costs and premiums associated with the refunding bonds issued in October 2012 are being amortized on a straight-line basis over the remaining life of the old debt of approximately 21 years. Additionally, the difference between the par value of the old bonds and the reacquisition price is recorded as a deferred amount on the refunding. These amounts are reflected as deferred outflows of resources and deferred inflows of resources. See Note 9.

For financial reporting purposes, debt which has been refunded is considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2013, total defeased debt outstanding related to refunded issues is approximately \$12.6 million, comprised of \$5.4 million of current year refunded bonds and \$7.2 million of issues refunded in previous years.

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

The outstanding Massachusetts Water Pollution Abatement Trust (MWPAT) bond above is recorded at the gross amount outstanding, as the Town is obligated to repay the full amount outstanding including interest; however, it is anticipated that the Commonwealth of Massachusetts will subsidize the interest portion of the debt service via contract payments to MWPAT (and MWPAT available earnings). These payments, if material, are recorded as revenue and expenses in the accompanying entity-wide financial statements; however, these payments are not included in the budgetary basis supplementary information because it is not part of the local budget.

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2013, including interest, are as follows:

| Year Ending<br>June 30, | <u>Governmental Activities</u> |                     |                      | <u>Business-type Activities</u> |                     |                      |
|-------------------------|--------------------------------|---------------------|----------------------|---------------------------------|---------------------|----------------------|
|                         | <u>Principal</u>               | <u>Interest</u>     | <u>Total</u>         | <u>Principal</u>                | <u>Interest</u>     | <u>Total</u>         |
| 2014                    | \$ 2,842,265                   | \$ 768,574          | \$ 3,610,839         | \$ 475,000                      | \$ 321,335          | \$ 796,335           |
| 2015                    | 2,482,358                      | 594,153             | 3,076,511            | 470,000                         | 307,410             | 777,410              |
| 2016                    | 2,472,358                      | 490,816             | 2,963,174            | 470,000                         | 211,913             | 681,913              |
| 2017                    | 2,447,358                      | 404,997             | 2,852,355            | 470,000                         | 198,377             | 668,377              |
| 2018                    | 1,452,358                      | 336,835             | 1,789,193            | 470,000                         | 183,038             | 653,038              |
| 2019 – 2023             | 5,343,718                      | 977,117             | 6,320,835            | 2,180,000                       | 695,142             | 2,875,142            |
| 2024 – 2028             | 2,371,121                      | 331,863             | 2,702,984            | 1,520,000                       | 423,070             | 1,943,070            |
| 2029 – 2033             | 285,000                        | 12,112              | 297,112              | 1,245,000                       | 199,584             | 1,444,584            |
| 2034 – 2038             | -                              | -                   | -                    | 605,000                         | 38,609              | 643,609              |
| Totals                  | <u>\$ 19,696,536</u>           | <u>\$ 3,916,467</u> | <u>\$ 23,613,003</u> | <u>\$ 7,905,000</u>             | <u>\$ 2,578,480</u> | <u>\$ 10,483,480</u> |

The Town is subject to a dual level general debt limit—the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Department of Revenue. Additionally, there are many categories of general obligation debt that are exempt from the debt limit but are subject to other limitations.

Unissued debt authorizations consist of the following at June 30, 2013:

| <u>Purpose</u>                        | <u>Year(s)<br/>Authorized</u> | <u>Amount</u>       |
|---------------------------------------|-------------------------------|---------------------|
| Water treatment facility construction | 2010                          | \$ 250,000          |
| Allen Harbor Dredging                 | 2011                          | 2,900,000           |
| Road improvements                     | 2013                          | 172,000             |
| Road maintenance program              | 2013                          | 500,000             |
| Greensand water treatment facility    | 2013                          | 1,259,465           |
|                                       |                               | <u>\$ 5,081,465</u> |

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

### Lease obligations

#### *A. Operating leases*

The Town has entered into a number of operating leases to support governmental activities, some of which are non-cancelable but otherwise are subject to annual appropriation. The annual minimum required lease payment for non-cancelable operating leases are immaterial as of June 30, 2013. See also Note 15.

#### *B. Capital leases*

In accordance with Massachusetts General Laws, the Town may enter into lease agreements for a period not exceed five years and subject to annual appropriation. Currently, the Town has no material capital leases.

### Note 9. Deferred outflows and deferred inflows of resources

The following is a summary of the Town's deferred outflows of resources and deferred inflows of resources associated with long term financing. These deferred outflows of resources and deferred inflows of resources for governmental activities relating to bond issuance are reported only in the government-wide financial statements. See also Note 5.

|                                        | Balance<br>July 01, 2012 | <u>Additions</u>  | <u>Reductions</u> | Balance<br>June 30, 2013 |
|----------------------------------------|--------------------------|-------------------|-------------------|--------------------------|
| <b>Governmental activities:</b>        |                          |                   |                   |                          |
| <b>Deferred outflows of resources:</b> |                          |                   |                   |                          |
| Deferred amount on refunding           | \$ -                     | \$ 239,912        | 5,712             | 234,200                  |
| Total deferred outflows of resources   | <u>\$ -</u>              | <u>\$ 239,912</u> | <u>\$ 5,712</u>   | <u>\$ 234,200</u>        |
| <b>Deferred inflow of resources:</b>   |                          |                   |                   |                          |
| Unamortized bond premiums              | <u>\$ -</u>              | <u>\$ 343,950</u> | <u>\$ 8,189</u>   | <u>\$ 335,761</u>        |
| <b>Business-type activities-</b>       |                          |                   |                   |                          |
| <b>Deferred outflows of resources:</b> |                          |                   |                   |                          |
| Deferred amount on refunding           | \$ -                     | 206,143           | 4,908             | 201,235                  |
| Total deferred outflows of resources   | <u>\$ -</u>              | <u>\$ 206,143</u> | <u>\$ 4,908</u>   | <u>\$ 201,235</u>        |
| <b>Deferred inflow of resources:</b>   |                          |                   |                   |                          |
| Unamortized bond premiums              | <u>\$ 118,462</u>        | <u>\$ 121,543</u> | <u>\$ 7,730</u>   | <u>\$ 232,275</u>        |



# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

### Note 10. Temporary Borrowings

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow on a temporary (short-term) basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of tax anticipation notes or revenue anticipation notes (TANs, RANs),
- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs),
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures for temporary borrowings are accounted for in the General Fund. Temporary borrowings are recorded as liabilities in the appropriate fund. Changes in the Town's temporary debt for the year ended June 30, 2013 are as follows:

| Type/Purpose                    | Loan Date | Maturity Date | Interest Rate | Beginning Balance | Issued              | Retirements         | Ending Balance      |
|---------------------------------|-----------|---------------|---------------|-------------------|---------------------|---------------------|---------------------|
| <b>Governmental Activities:</b> |           |               |               |                   |                     |                     |                     |
| BAN-Allen Harbor dredging       | 6/29/2011 | 2/28/2013     | 0.54%         | \$ 150,000        | \$ 150,000          | \$ 150,000          | \$ -                |
| BAN-Allen Harbor dredging       | 2/28/2013 | 6/28/2013     | 0.44%         |                   | 2,900,000           | 2,900,000           |                     |
| BAN-Allen Harbor dredging       | 6/28/2013 | 7/31/2013     | 0.40%         |                   | 1,000,000           |                     | 1,000,000           |
| BAN-Allen Harbor dredging       | 6/28/2013 | 7/31/2013     | 0.44%         | -                 | 1,900,000           | -                   | 1,900,000           |
| Total                           |           |               |               | <u>\$ 150,000</u> | <u>\$ 5,800,000</u> | <u>\$ 3,050,000</u> | <u>\$ 2,900,000</u> |

Since proceeds from bond anticipation notes are not considered permanent funding sources, the Town has reported a deficit fund balance in the capital projects fund - Allen Harbor dredging project. This deficit will be funded through long-term borrowing. Furthermore, the Town will be assessing betterments to applicable property owners in fiscal year 2014. The Town permanently financed the notes relating to this project by issuing general obligation bonds in the amount of \$2,900,000 on July 31, 2013 with a maturity date of July 15, 2023 and interest rates ranging from 2.00% to 2.75%.

### Note 11. Employee Benefits

#### A. Retirement Benefits

##### Plan Description

The Town of Harwich, Massachusetts contributes for eligible employees, other than teachers, to the Barnstable County Retirement Association (Association), a cost-sharing multiple-employer defined benefit pension plan administered by the Barnstable County Retirement Association. The Association provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Association is governed by the applicable provisions of Chapter 32 of the Massachusetts General Law (M.G.L.) and other applicable statutes. Oversight is provided by a five member board. The Association issues an annual report which is available to the public and may be obtained by contacting the Commonwealth of Massachusetts, Public Employee Retirement Administration Commission (PERAC), One Ashburton Place, Boston, MA 02108. Teachers are covered by the Commonwealth of Massachusetts, Teachers Retirement System (TRS), to which the Town does not contribute.

## **TOWN OF HARWICH, MASSACHUSETTS**

### **Notes to Financial Statements**

June 30, 2013

#### **Funding Policy**

Plan members are required to contribute 5-11% of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The Town's current year's gross contribution is \$2,707,722 representing approximately 6.03% of the system wide employer assessments which was equal to the required contribution. The System offered a 2% discount for paying the entire assessment in July. The Town paid \$2,656,123 for a savings of approximately \$52,000. The contribution requirements of plan members and the Town are established and may be amended by M.G.L. The Town's contributions to the Association for the years ending June 30, 2012 and 2011 were \$2,495,764 and \$2,330,235, respectively and also approximate 5.6% of the system wide employer assessments for each year, which were equal to the required contributions for each year.

As noted above, the Town does not contribute to TRS. Contributions to the TRS are made by the Commonwealth of Massachusetts on behalf of the Town. Accounting Principles Generally Accepted in the United States require the Town to record such "on behalf payments" as revenue and expenditures in the financial statements. Accordingly, \$3,437,707 of pension benefits paid by the Commonwealth of Massachusetts on behalf of the Town is included in the accompanying Statement of Activities as employee benefits and other insurance operating contributions and expense and in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance as general fund intergovernmental revenue and employee insurance expenditures. These on-behalf payments are not part of the local budget and therefore, are not included in the accompanying budgetary basis statements. See Note 14.

#### **B. Compensated Absences**

Employees earn vacation and sick leave as they provide services. The cost of vacation and sick leave benefits is recorded as an expenditure of the applicable fund when incurred. Vacation and sick pay accumulates for various groups of employees based upon personnel by-laws and their respective collective bargaining agreements. Accumulated unused sick leave is due to certain employees upon termination of employment and has been recorded as a liability in the accompanying Statement of Net Position for both governmental and business-type activities.

#### **C. Other Post Employment Benefits**

##### **Plan Description**

The Town administers a single employer defined benefit plan which provides health and prescription drug benefits to substantially all retired employees and their spouses (plan members). Eligibility to retire under the Town's plan is based upon meeting one of the following conditions:

- i. At least 10 years of creditable service are eligible at age 55;
- ii. At least 20 years of creditable serve are eligible at any age.

The Plan does not issue separate financial statements, but an actuarial valuation is performed biennially. The number of participants as of June 30, 2012, the effective date of the valuation was 514, which includes retirees, beneficiaries, and dependent members of 355 and active members of 162. The Town continues to be responsible for group insurance for school department personnel who retired prior to July 1, 2012. See also Note 15. These benefits are provided for and amended under various provisions of Massachusetts General Law, terms of collective bargaining agreements and Town ordinances. The Town's net obligation for all of its plan's members have been recorded within the governmental activities as of June 30, 2013.

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

### Funding Policy

The contribution rates of retirees are established by collective-bargaining agreements, Massachusetts General Law, and Town ordinances. The required contribution is based on pay as you go financing requirements. For fiscal year 2013, the Town contributed approximately \$1.6 million to group health programs on behalf of retirees, beneficiaries and spouses. Benefits were paid to retirees, beneficiaries and dependents during the fiscal year ended June 30, 2013 and are paid on a pay as you go basis. All benefits are provided through a third-party insurance carrier that administers, assumes, and pays all claims. The Town contributes at least 75% of the insurance premiums with the remainder funded through retiree contributions.

### Annual OPEB Cost and Net OPEB Obligation

The Town's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the provisions of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation.

|                                        |                      |
|----------------------------------------|----------------------|
| Annual required contribution (ARC)     | \$ 2,808,742         |
| Interest on net OPEB obligation        | 599,224              |
| ARC adjustment                         | <u>(486,006)</u>     |
| Annual OPEB cost                       | 2,921,960            |
| Contributions made                     | <u>(1,816,588)</u>   |
| Increase in net OPEB obligation        | 1,105,372            |
| Net OPEB obligation, beginning of year | <u>13,316,079</u>    |
| Net OPEB obligation, end of year       | <u>\$ 14,421,451</u> |

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

| Fiscal Year<br><u>Ended</u> | Annual OPEB<br><u>Cost</u> | Percentage of<br>Annual OPEB<br><u>Cost Contributed</u> | Net OPEB<br><u>Obligation</u> |
|-----------------------------|----------------------------|---------------------------------------------------------|-------------------------------|
| 6/30/2013                   | \$ 2,921,960               | 62.17%                                                  | \$ 14,421,451                 |
| 6/30/2012                   | \$ 5,674,081               | 44.00%                                                  | \$ 13,316,079                 |
| 6/30/2011                   | \$ 5,364,266               | 41.02%                                                  | \$ 10,139,351                 |

### Funding Status and Schedule of Funding Progress

The unfunded actuarial liability was determined using the level dollar thirty year open amortization basis.

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

|                                | (a)                             | (b)                                        | (b) - (a)                 | (b) / (a)       | (c)                | [(b)-(a)]/(c)                                    |
|--------------------------------|---------------------------------|--------------------------------------------|---------------------------|-----------------|--------------------|--------------------------------------------------|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll |
| 6/30/2012                      | \$ -                            | \$44,084,195                               | \$ 44,084,195             | 0.00%           | N/A                | N/A                                              |
| 6/30/2010                      | \$ -                            | \$ 81,139,558                              | \$ 81,139,558             | 0.00%           | N/A                | N/A                                              |
| 6/30/2008                      | \$ -                            | \$ 70,177,265                              | \$ 70,177,265             | 0.00%           | N/A                | N/A                                              |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Actuarial Methods and Assumptions

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following methods and assumptions were utilized in the June 30, 2012 valuation:

- Actuarial Cost Method: Projected Unit Credit
- Amortization Method: Amortization payments increasing at 4.5%
- Amortization Period: 30 years open
- Asset Valuation Method: Market value
- Investment Rate of Return: 4.50%, pay as you go scenario
- Inflation Rate: 4.0%
- Dental: None
- Healthcare Trend Rates: 8% decreasing by 0.50% for 6 years to an ultimate level of 5.0% per year

### Note 12. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years thereafter. The landfill has stopped accepting solid waste and pursuant to a Massachusetts Department of Environmental Protection consent order, the Town has placed a final cover on its landfill. Based upon experience, the Town estimates annual monitoring costs are \$18,500 per year. As of June 30, 2013, \$333,000 has been reported on the Town's statement of net assets as an estimated remaining liability for post-closure monitoring costs of the landfill. Actual costs may change due to changes in regulations, technology, and inflation.

## **TOWN OF HARWICH, MASSACHUSETTS**

### **Notes to Financial Statements**

June 30, 2013

#### **Note 13. Risk Management**

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Town is exposed to various risks of loss related to general liability, property and casualty, unemployment, employee health claims, and workers' compensation.

The Town purchases general liability insurance and insures buildings and property through insurance policies. Losses are insured to the extent the losses exceed the deductibles. The Town has a prepaid expense of approximately \$21,000 related to insurance assessments.

As discussed in Note 1, the Town participates in the Cape Cod Municipal Health Group, a municipal joint-purchase group consisting of 51 governmental units, formed pursuant to Massachusetts General Law Chapter 32B to provide employee insurance benefits. Employees and the Town both contribute to the Group. The Town budgets, annually for its estimated 75% share of contributions which approximated \$3.4 million for fiscal year 2013. As of June 30, 2013, the Group had net assets of \$23,848,753 (unaudited). Additional information related to the Group may be obtained by contacting the Group directly.

#### **Note 14. Commitments and Contingencies**

The Town is named as a defendant in several lawsuits at June 30, 2013. In the opinion of the administration, the ultimate resolution of these legal actions will not result in a material loss to the Town.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

#### **Note 15. Establishment of the Monomoy Regional School District**

- July 1, 2012 was the official start date for the Monomoy Regional School District (the District), comprised of the Town of Harwich and Town of Chatham. The District was formed by votes of the member towns in December 2010, in accordance with Massachusetts General Law. The District is to provide education to the member towns' students grades K-12. The District's operating, capital, transportation and debt service budgets are assessed to the members based upon the Regional Agreement dated January 19, 2011. Pursuant to the regional agreement and MGL all district assessments must be accepted by each Town's Town Meeting on an annual basis.
- The Regional District School Committee operates under the provisions of Chapter 71, Section 16A and other applicable MGL. Due to the disparity in the population of the member towns, the Committee operates under a "weighted voting" methodology, whereas the four (4) Committee members from Town of Harwich have one full vote on all matters and the four (4) Committee members from Town of Chatham have 50% of a vote on all matters for a total of six (6) votes. For a motion to pass, a majority of the six (6) votes must be cast in the affirmative with at least one affirmative vote from each town.
- In September 2012, the Town electorate voted to exempt its allocable share of debt to be incurred by the District for the construction of a new high school, from the limits of proposition 2.5. The project is to be partially funded by the Massachusetts School Building Authority based upon eligible costs. Initial borrowing on this project is expected in November 2013. The Town's assessment from the District for fiscal year 2013 was \$20,337,662, of which \$89,811 related to debt, representing .05% of the total assessment. All assessments are classified as educational expenses within the Town's financial statements.

# TOWN OF HARWICH, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2013

- Pursuant to the regionalization agreement, the Town maintains ownership of its current school buildings and grounds and shall lease these to the District for the sum of one dollar a year for a term up to twenty (20) years with additional extensions possible at the discretion of the Regional District School Committee. At the point these buildings and grounds are no longer needed by the District, per vote of the Regional District School Committee, custody and control will revert back to the town.
- During fiscal year 2013 the Town transferred approximately \$1.6 million of funds remaining in various school related special revenue funds in accordance with asset transfer provisions of the regionalization agreement.

### **Note 16. Restated beginning balances**

The following beginning governmental fund balances have been restated to correspond with the current year presentation of major funds.

|                                                 | Allen Harbor<br>Dredging<br>Project | Other<br>Governmental<br>Funds |
|-------------------------------------------------|-------------------------------------|--------------------------------|
| Fund balance 6/30//2012, as previously reported | \$ -                                | \$ 4,758,038                   |
| Reported as major fund fiscal year 2013         | (129,972)                           | 129,972                        |
| Fund balance, restated 7/1/2012                 | <u>\$ (129,972)</u>                 | <u>\$ 4,888,010</u>            |

### **Note 17. Implementation of GASB Pronouncements**

The following are pronouncements issued by the Governmental Accounting Standards Board (GASB), which are applicable to the Town's financial statements.

#### **Current pronouncements**

The GASB issued Statement #60, Accounting and Financial Reporting for Service Concession Arrangements, which was required to be implemented in fiscal year 2013. This pronouncement's objective was to improve financial reporting by addressing issues related to service concession arrangements (SCA), which are types of public-private or public-public partnerships through the use of infrastructure or another public asset in exchange for significant consideration. This pronouncement had no effect on the Town in the current year.

The GASB issued Statement #61, The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34, which was required to be implemented in fiscal year 2013. This pronouncement modified requirements for the inclusion of component units in the financial reporting entity. This pronouncement had no effect on the Town in the current year.

The GASB issued Statement #62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which was required to be implemented in fiscal year 2013. This pronouncement continued the codification of all generally accepted accounting principles for state and local governments into a single source.

## TOWN OF HARWICH, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2013

The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was required to be implemented in fiscal year 2013. This pronouncement standardized the financial reporting relating to the elements of a government's consumption of net assets, and an acquisition of net assets that is applicable to a future reporting period.

The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014. This pronouncement was implemented in the current year. The pronouncement reclassified certain assets and liabilities as deferred outflows and deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

#### **Future pronouncements**

The GASB issued Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No.10 and No. 62*, which is required to be implemented in fiscal year 2014. The pronouncement resolves conflicting guidance from issued pronouncement No. 54, regarding fund based reporting of risk financing activities. Also it amends No. 62 by modifying the specific guidance on accounting for (1) operating lease payments, (2) purchase of a loan or a group of loans, and (3) service fees. The Town doesn't believe this pronouncement will have a material effect upon the Town's financial statements.

The GASB issued Statement #68, *Accounting and Financial Reporting for Pension*, which is required to be implemented in fiscal year 2015. The pronouncement requires governments providing defined benefit pensions to recognize their long term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual cost of pension benefits. It also enhances accountability and transparency through revised and additional note disclosures and required supplementary information. The pronouncement will have a material effect upon the Town's financial statements.

The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2014. The pronouncement addresses accounting and financial reporting issues associated with a variety of transactions, such as mergers, acquisitions, disposals and transfer of governmental operations. The Town doesn't anticipate this pronouncement will have an effect upon the Town's financial statements.

The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014. The pronouncement addresses accounting and financial reporting for financial guarantees extended by a government for the obligations of another government, not-for-profit, or private entity without directly receiving equal or approximately equal value in exchange for the guarantee. The Town doesn't anticipate the pronouncement will have an effect upon the Town's financial statements.

**TOWN OF HARWICH, MASSACHUSETTS**  
 Required Supplementary Information  
 Schedule of Funding Progress for the Town's Retiree Benefit Plan- OPEB  
 June 30, 2013

**Funding Status and Schedule of Funding Progress**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. The unfunded actuarial liability was determined using the level dollar thirty year open amortization basis. See also Note 15. Additional information as of the latest valuation follows:

|                                | (a)                             | (b)                                        | (b) - (a)                 | (b) / (a)       | (c)                | [(b)-(a)]/(c)                                    |
|--------------------------------|---------------------------------|--------------------------------------------|---------------------------|-----------------|--------------------|--------------------------------------------------|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll |
| 6/30/2012                      | \$ -                            | \$ 44,084,195                              | \$ 44,084,195             | 0.00%           | N/A                | N/A                                              |
| 6/30/2010                      | \$ -                            | \$ 81,139,558                              | \$ 81,139,558             | 0.00%           | N/A                | N/A                                              |
| 6/30/2008                      | \$ -                            | \$ 70,177,265                              | \$ 70,177,265             | 0.00%           | N/A                | N/A                                              |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following methods and assumptions were utilized in the June 30, 2012 valuation:

|                              |                                                                          |
|------------------------------|--------------------------------------------------------------------------|
| ■ Actuarial Cost Method:     | Projected Unit Credit                                                    |
| ■ Amortization Method:       | Amortization payments increasing at 4.0%                                 |
| ■ Amortization Period:       | 30 years open                                                            |
| ■ Asset Valuation Method:    | Market value                                                             |
| ■ Investment Rate of Return: | 4.5%, pay as you go scenario                                             |
| ■ Inflation Rate:            | 4.0%                                                                     |
| ■ Dental:                    | None                                                                     |
| ■ Healthcare Trend Rates:    | 8% decreasing by 0.50% for 6 years to an ultimate level of 5.0% per year |



**TOWN OF HARWICH, MASSACHUSETTS**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2013**

|                                                                                            | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--------------------------------------------------------------------------------------------|----------------------------|-------------------------|---------------|-------------------------------------------------------------------|
| <b>Revenues</b>                                                                            |                            |                         |               |                                                                   |
| Property taxes and payment in lieu                                                         | \$ 38,037,323              | \$ 38,067,066           | \$ 38,222,730 | \$ 155,664                                                        |
| Excise taxes                                                                               | 2,228,434                  | 2,228,434               | 2,504,980     | 276,546                                                           |
| Recreational fees                                                                          | 2,828,278                  | 2,828,278               | 2,828,414     | 136                                                               |
| Sanitation fees                                                                            | 1,675,000                  | 1,675,000               | 1,713,368     | 38,368                                                            |
| Charges for service                                                                        | 975,000                    | 975,000                 | 981,281       | 6,281                                                             |
| Licenses, permits, fines and other fees                                                    | 937,000                    | 937,000                 | 848,300       | (88,700)                                                          |
| Penalties and interest                                                                     | 240,000                    | 240,000                 | 284,945       | 44,945                                                            |
| Investment interest                                                                        | 20,000                     | 20,000                  | 23,103        | 3,103                                                             |
| Other departmental                                                                         | 39,000                     | 39,000                  | 87,584        | 48,584                                                            |
| Intergovernmental                                                                          | 1,572,736                  | 1,572,736               | 1,620,631     | 47,895                                                            |
| Total revenues                                                                             | 48,552,771                 | 48,582,514              | 49,115,336    | 532,822                                                           |
| <b>Expenditures</b>                                                                        |                            |                         |               |                                                                   |
| General government                                                                         | 2,742,183                  | 2,242,441               | 2,228,881     | 13,560                                                            |
| Public safety                                                                              | 7,562,929                  | 7,542,437               | 7,502,643     | 39,794                                                            |
| Education                                                                                  | 20,880,196                 | 20,880,179              | 20,880,179    |                                                                   |
| Public works                                                                               | 4,523,753                  | 4,423,860               | 4,404,862     | 18,998                                                            |
| Human services                                                                             | 1,059,666                  | 1,064,618               | 978,810       | 85,808                                                            |
| Culture and recreation                                                                     | 3,175,388                  | 2,966,818               | 2,889,257     | 77,561                                                            |
| Employee benefits and other insurances                                                     | 6,920,045                  | 6,888,441               | 6,689,053     | 199,388                                                           |
| State and county assessments                                                               | 947,804                    | 953,448                 | 626,146       | 327,302                                                           |
| Debt service                                                                               | 4,078,625                  | 4,078,625               | 3,976,526     | 102,099                                                           |
| Total expenditures                                                                         | 51,890,589                 | 51,040,867              | 50,176,357    | 864,510                                                           |
| Revenues over (under) expenditures                                                         | (3,337,818)                | (2,458,353)             | (1,061,021)   | 1,397,332                                                         |
| <b>Other financing sources (uses)</b>                                                      |                            |                         |               |                                                                   |
| Transfers in from other funds                                                              | 1,602,967                  | 2,110,324               | 2,008,374     | (101,950)                                                         |
| Transfers out to other funds                                                               |                            | (160,025)               | (228,040)     | (68,015)                                                          |
| Total other financing sources (uses)                                                       | 1,602,967                  | 1,950,299               | 1,780,334     | (169,965)                                                         |
| Revenues and other financing sources over<br>(under) expenditures and other financing uses | (1,734,851)                | (508,054)               | 719,313       | \$ 1,227,367                                                      |
| Fund balance, beginning of year                                                            |                            |                         | 4,106,879     |                                                                   |
| Fund balance, end of year                                                                  |                            |                         | \$ 4,826,192  |                                                                   |
| <b>Other budget items</b>                                                                  |                            |                         |               |                                                                   |
| reappropriated fund balance - articles                                                     | 214,536                    | 317,661                 |               |                                                                   |
| Free cash appropriations                                                                   |                            | 205,000                 |               |                                                                   |
| Overlay surplus                                                                            | 100,000                    | 100,000                 |               |                                                                   |
| Carryover articles and encumbrances                                                        | 1,420,315                  | (114,607)               |               |                                                                   |
| Total other budget items                                                                   | 1,734,851                  | 508,054                 |               |                                                                   |
| Net budget                                                                                 | \$                         | \$                      |               |                                                                   |

See accompanying notes to required supplementary information.

**TOWN OF HARWICH, MASSACHUSETTS**  
**Budgetary Comparison Schedule - Community Preservation Fund**  
**For the Year Ended June 30, 2013**

|                                                                                            | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--------------------------------------------------------------------------------------------|----------------------------|-------------------------|---------------|-------------------------------------------------------------------|
| <b>Revenues</b>                                                                            |                            |                         |               |                                                                   |
| Property taxes, penalties and interest                                                     | \$ 1,096,363               | \$ 1,096,363            | \$ 1,121,430  | \$ 25,067                                                         |
| Investment interest                                                                        |                            |                         | 692           | 692                                                               |
| Intergovernmental                                                                          | 328,909                    | 328,909                 | 332,698       | 3,789                                                             |
| Total revenues                                                                             | 1,425,272                  | 1,425,272               | 1,454,820     | 29,548                                                            |
| <b>Expenditures</b>                                                                        |                            |                         |               |                                                                   |
| Total expenditures                                                                         | 1,232,344                  | 508,075                 | 489,538       | 18,537                                                            |
| Revenues over (under) expenditures                                                         | 192,928                    | 917,197                 | 965,282       | 48,085                                                            |
| <b>Other financing sources (uses)</b>                                                      |                            |                         |               |                                                                   |
| Transfers in from other funds                                                              |                            | 103,125                 | 171,140       | 68,015                                                            |
| Transfers out to other funds                                                               | (759,930)                  | (1,159,930)             | (1,159,930)   |                                                                   |
| Total other financing sources (uses)                                                       | (759,930)                  | (1,056,805)             | (988,790)     | 68,015                                                            |
| Revenues and other financing sources over<br>(under) expenditures and other financing uses | (567,002)                  | (139,608)               | (23,508)      | \$ 116,100                                                        |
| Fund balance, beginning of year                                                            |                            |                         | 2,288,279     |                                                                   |
| Fund balance, end of year                                                                  |                            |                         | \$ 2,264,771  |                                                                   |
| <b>Other budget items</b>                                                                  |                            |                         |               |                                                                   |
| Fund balance reserves                                                                      | 567,002                    | 139,608                 |               |                                                                   |
| Total other budget items                                                                   | 567,002                    | 139,608                 |               |                                                                   |
| Net budget                                                                                 | \$                         | \$                      |               |                                                                   |

See accompanying notes to required supplementary information.

**TOWN OF HARWICH, MASSACHUSETTS**

**Notes to Required Supplementary Information**

**June 30, 2013**

**Note 1. Budgetary Basis of Accounting**

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the Town, including available surplus funds.

The budgets are for all departments and operations of the Town. The regional school districts' school committee is responsible for their respective budgets, which must be voted upon by member towns at town meeting. Original and supplemental appropriations are acted upon by vote of Town Meeting. General Fund and Community Preservation Fund functions are budgeted; the town does not have legally adopted annual budgets for its other special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies. Business-type activities are not required to present budgetary information.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The "actual" results column of the Budgetary Comparison Schedule - General Fund, are presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP basis is all budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenues when levied (budget) as opposed to when susceptible to accrual (GAAP). There is no difference between the GAAP and budgetary basis for the Town's Community Preservation fund. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2013, is presented below:

|                                                                  | <u>Revenues</u>      | <u>Expenditures</u>  | <u>Other Financing<br/>Sources (Uses), Net</u> |
|------------------------------------------------------------------|----------------------|----------------------|------------------------------------------------|
| As reported on a budgetary basis                                 | \$ 49,115,336        | \$ 50,176,357        | \$ 1,780,334                                   |
| Interest income of stabilization funds                           | 3,319                |                      |                                                |
| Indirect charges for water fund                                  |                      | (411,255)            | (411,255)                                      |
| Adjustment of property tax revenues to<br>modified accrual basis | (21,216)             |                      |                                                |
| State funded teacher's pension                                   | <u>3,437,707</u>     | <u>3,437,707</u>     | <u>-</u>                                       |
| As reported on a GAAP basis                                      | <u>\$ 52,535,146</u> | <u>\$ 53,202,809</u> | <u>\$ 1,369,079</u>                            |

## REQUIRED SUPPLEMENTARY INFORMATION



Lynch, Malloy, Marini, LLP

Certified Public Accountants & Advisors

www.lmmcpas.com

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Board of Selectmen  
Town of Harwich, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Town of Harwich, Massachusetts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Harwich, Massachusetts' basic financial statements and have issued our report thereon dated November 12, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Town of Harwich, Massachusetts' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Harwich, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Harwich, Massachusetts' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as items 2013-01, 2013-02 and 2013-03 to be material weaknesses.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as items 2013-04 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Harwich, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Town of Harwich, Massachusetts' Response to Findings

Town of Harwich, Massachusetts' response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Town of Harwich, Massachusetts' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lynch, Malloy, Marini, LLP*

Norwell, Massachusetts  
November 12, 2013



**TOWN OF HARWICH, MASSACHUSETTS**  
**Schedule of Findings and Responses**

**2013-01: Reconciliation of cash on a timely basis**

**Finding and recommendations:** As noted in the previous years, the Town has not been able to completely implement procedures which reconcile treasury cash with the accounting office on a routine, timely basis. Management and personnel have been working to establish procedures which had lapsed under previous treasury personnel. During fiscal year 2012, the treasurer has implemented the use of QuickBooks to maintain treasury cashbooks. While there has been improvement in the documentation and timeliness of reconciling bank statements to the cashbook, overall enhancements to the processes of reconciling activity and balances with the accountant are still ongoing. We recommend management continue its efforts to implement procedures which are provide for reconciling all activity on a monthly basis. All steps should include formalized signoff by personnel performing each step, as well as signoff between the treasurer and accountant on a monthly basis. It is important that all reconciling items be formally documented to ensure items are investigated and disposition of such items is proper. Establishing formalized procedures ensure that misstatements are detected and corrected on a timely basis.

**Management's response:** The Town has worked hard to get current on cash reconciliations. Policies and procedures to more formally document reconciliations and provide for formalized reconciliations on a routine basis between the treasurer's office and the accounting office will be worked on during fiscal year 2014.

**2013-02: Improve recording, reporting and reconciliation of certain receivable accounts**

**Finding and recommendations:** As noted in previous years, the Town should calculate, record and report all receivable accounts in accordance with current accounting standards and guidelines. As noted in previous years, certain receivable balances are not maintained in the appropriate funds and certain detailed listings for tax foreclosures were not available for our review. Certain adjustments have been proposed for the Town's financial statements. While the town does maintain control reports for many of these receivables, detailing activity on a fiscal year basis, documentation and reconciliation to underlying detailed lists is not complete for all accounts. We recommend the Town continue its efforts to address the recording, reporting and reconciliation of receivable balances to underlying detail lists to ensure activity is proper and misstatements are detected and corrected on a timely basis.

**Management's response:** The Town is working toward implementation of the auditor's recommendations to ensure all receivables are properly reported in the Town's ledger and all reconciliations and detailed lists are maintained.

**TOWN OF HARWICH, MASSACHUSETTS**  
**Schedule of Findings and Responses**

**2013-03: Improve chart of accounts, including recording of articles within proper funds and reconciliation of appropriations with budget**

**Finding and recommendations:** As noted in previous years, the Town is required to maintain its accounting records (general ledger) in accordance with Uniform Municipal Accounting System promulgated by the Department of Revenue and accounting pronouncements from the Governmental Accounting Standards Board. Accordingly, all financial activity should be maintained and processed through the appropriate funds. Moreover it is important that a formalized reconciliation of the budget approved at Town Meeting to budgetary postings within the appropriation ledger to ensure all activity is properly accounted for. While numerous spreadsheets are maintained to track the budget currently, significant additional work is needed to assist the Town in segregating activity into the appropriate funds. We have proposed several adjustments to the Town for the financial statements related thereto, including reclassifying certain community preservation activity from the general fund to the special revenue fund as appropriate. We continue to recommend the Town implement procedures to enhance the ledger and budgetary reporting.

**Management's response:** The Town has appropriated funds to redesign the chart of accounts to comply with current accounting requirements. The Town anticipates this to be completed in fiscal year 2014. Additionally, procedures will be reviewed to provide for a more concise monitoring and reconciliation of appropriations posted within the accounting system.

**2013-04: Implement formalized procedures to maintain inventory of capital assets and infrastructure**

**Finding and recommendations:** As noted in previous years, the Town relies upon performing an update of its capital asset inventory for financial reporting purposes on an annual basis. While this is common among many Massachusetts municipalities, relying upon an annualized analysis increases the risk that the inventory may have misstatements. Procedures should be established which identify or "capture" capital asset acquisitions and disposals at the time of occurrence. The Town's capitalization policies and procedures should be more formally documented for departmental personnel to be familiar with expectations. We recommend these policies and procedures include, but not be limited to the following: identifying assets at the time of acquisition, identification of retired, disposed, idle or impaired assets, identification of donated assets, and determination of useful lives, including any revisions related thereto. Procedures should also include periodic physical review /inspection of assets and reconciliation to the centralized capital asset inventory.

**Management's response:** The Town is in the process of reviewing the implementation of capital asset software to enhance the maintenance of the Town's capital asset inventory. The Town will also will review current procedures to more readily indentify capital assets at the time of acquisition to streamline the process.